the MANAGEMENT REVIEW

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AUGUST, 1948

AMONG THE FEATURES

AMERICAN MANAGEMENT ASSOCIATION

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the MANAGEMENT REVIEW

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GENERAL MANAGEMENT...

Customer Relations vs. Public Relations

MANY companies are building up large public relations organizations, or paying out huge sums for public relations "experts." Yet some of these same firms are permitting their customer relations to deteriorate dangerously.

Here is a case which is duplicated so often it could easily be called typical. Two wholesale companies, both operating in the same fields, have decidedly different policies concerning public and customer relations. One company seems intent on getting its name in the papers as often as possible. The other seems to care little whether its name ever appears in the papers. One is earning steady profits; the other has chalked up losses. One shows steady gains in sales; the other has lost ground. One company gives parties to the newspaper people at the slightest excuse; the other has never given a newspaper party.

Which is the company showing gains, and increases in profits? You guessed it—it is the company which does not seem to care whether its president's picture is published in the papers or not. While one company is sawing wood and working hard at the business of serving customers, the other seems more intent on building a big scrapbook of clippings.

Now, there is nothing wrong in seeking sound publicity. At times it is smart business to woo publicity. But customers should come first. And there is a surprisingly large number of managements that are apparently more intent on a "good press" than on satisfied customers.

Right now customer complaints threaten to injure seriously one automobile company, yet its great staff of publicity men and outside counsel are the busiest group of party givers and publicity seekers in the business (and the automobile business has never been exactly bashful about publicity). Dealers are furious at this manufacturer; and buyers are furious at the dealers who sold them the cars. Yet the publicity releases are ground out in amazing quantity.

In one large city there is an insurance company which never misses an opportunity for publicity. Recently a policyholder became doubtful about coverage, wrote three letters to the home office of the company and received no answer. A letter to the state insurance commission brought a roundabout reply. The company replied to the commissioner, and the commissioner replied to the policyholder, but the company never got around to writing the policyholder. Meanwhile the policyholder signed up for premiums of more than $600 a year with a rival company.

As business shows signs of a general slowdown, and as customers become important once more, many companies will need to adopt a wholly new policy and will need to retrain or restaff complaint and adjustment departments.

The new president of one company recently sent two assistants unannounced to the incoming-mail department to extract all complaint letters for his personal study. He had intended to pick out the complaints for several days. One mail brought enough to keep him busy a week. Several men were discharged, three others were instructed to drop all other work until the complaints

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were satisfactorily adjusted. A series of staff meetings was started to carry on training in handling complaints, to study their causes, and plan to reduce them.

In one company after another, many key people seem to have grown callous to the constant stream of customer complaints about inferior merchandise, poor packing, delayed deliveries, broken delivery promises, faulty billing and invoicing, and a variety of customer-killing annoyances. In fact, in an astounding number of companies such customer complaints are today looked upon as routine. Only a few years back, the present volume of complaints would have stirred an organization from top to bottom.

Not until somebody near the top takes a hand in complaint handling and customer relations will there be any perceptible improvement. There are established ways to handle the situation, and it should not be an overwhelming job to create a wholly new attitude toward customer treatment, if the right men tackle the job.

First step is to appraise the complaints. This can be done over a brief period of requiring all complaints of any nature to be brought to one central source for study, analysis, and handling. In a short time it will be possible to develop a tabulation showing just what type of complaints are coming in, and which ones are most numerous and serious.

When it is known that top management is vitally interested in stopping the complaints at the source, and is insisting upon quick adjustment of all valid complaints, conditions will improve rapidly. More than that, when the cause of complaints is finally pinned on the right parties, there will be a big improvement.

It is not easy to place responsibility correctly. But when a vigorous attempt is made to assess responsibility fairly and accurately, and every person understands that every complaint will be run down to its source, more care will quickly become evident in preventing mistakes and improving service.

The second step in improving customer relations is to admit frankly that things have not been what they should be, and to inform customers what steps are being taken to remedy the trouble. Customers are human and willing to forget and forgive, so long as a company does not continue to try to cover up its shortcomings.

After the customers have been told frankly what has been done to improve customer relations, the third step is to watch performance until it is up to par, or nearly so; then begin a campaign to let everybody know that an appreciable improvement has been accomplished. Then a company can begin to build back its old reputation.

Until drastic steps are taken to improve customer relations, there seems little point in continuing to put emphasis on public relations. Customer relations are the keystone on which a business is built, and to attempt to win wide public recognition where customer relations are at fault is to commit business suicide.

American Business, May, 1948, p. 12:3.

• THE MEN whom I have seen succeed best in life have always been cheerful and hopeful men, who went about their business with a smile on their faces and took the chances and changes of this mortal life like men, facing rough and smooth alike as it came; and so found the truth of the old proverb, that good times and bad times and all times pass over.

—Charles Kingsley (quoted in *Management Briefs*)

Management Reconstructs Its Thinking

ADMINISTRATIVE thought and thought processes are now being recast into new molds which are rendering obsolescent earlier forms of management thinking. Today's pattern contains a point of view not unlike that of the statesman, but it is not statesmanship. It contains techniques of review and of forecast similar to those of the contemporary historian, yet it is neither history nor prophecy. It employs thinking devices which are close to those of scientific management, yet it is not entirely scientific in nature. It draws heavily upon information which the economist is often qualified to provide, yet the method of thought is not essentially that of the social scientist.

Perhaps the most surprising aspect of this redesign of our ways of corporate thinking is the fact that the readjustment has occurred without heralding and fanfare. Indeed, it has come about so quietly as to be practically unnoticed.

In common with other major changes, this reconstruction of management thinking is the result of changes in attitude toward industry of the public and of management itself during the war and postwar years.

In the past, industry was customarily viewed as a source of livelihood and of reward for effort. It was part of the workaday world, and competed with agriculture and other forms of economic service for its markets and its personnel.

The years of depression preceding World War II brought sharp awareness that the advantages of widespread industrial employment could not be replaced by alternate forms of livelihood during industrial depressions, that industrial health and activity were more than economic contributions—they were necessitous to human welfare in an industrial nation.

The war produced the further realization that industry is as essential to national protection as to national prosperity.

This recent conception of industry as a vital and inseparable element rather than a contributory factor in economic well-being undergirds the new structure of management thinking. Encouraged by the evidence of vitality, resilience, flexibility, and power of creativeness which industry displayed during and after the war years, and stimulated by the desire of the international market for industrial goods and the postwar prospect of an interim of peace, management has accepted the challenge implicit in the public attitude and is now in process of reconstructing its thinking with respect to its heightened social responsibilities. Management has found especial reassurance in the knowledge that innovation, as it applies to products, processes, methods, equipment, and materials, responds readily to sound organization and implementation in terms of personnel and facilities. Manufacturers today are geared to change and to progress in ways which capitalize upon rather than capitulate to the new.

When common difficulties and common problems present themselves to American industry, solutions are approached in a variety of ways by individual companies. When an answer is reached, it is quickly heralded, and the technique becomes the property of the entire group. Such a common problem has confronted postwar management, and the outlines of its solution are now becoming evident. In simplest form, the current challenge is: *When the activities of the typical industrial*

enterprise become basically indispensable to the day-to-day welfare of the people and of the nation, then the administration of such an enterprise likewise becomes a long-term and permanent responsibility.

Evidence that this challenge is being actively studied is appearing in several quarters.

Company A has instituted a series of policy committees concerned with the long-term aspects of various phases of the business. Recommendations from these committees form the basis from which a composite long-term corporate policy is assembled.

Company B has recently established a working committee of top executives and directors to study future possibilities and developments for their organization. In order that the group may learn to eliminate from the discussion all thoughts of personal involvement, the first assignment has been to determine the desired position of the corporation 35 years hence. Such a period will be beyond the services of any man in the group.

Company C, apparently well ahead in its long-term planning, is now employing young men of distinguished potentialities for specific jobs, the responsibilities for which will be shouldered some 10 years hence in terms of detailed blueprints of future company activities.

In addition to these examples, there is growing evidence that the progressive American manufacturer is searching assiduously for any information which will throw light on the deeper aspects of change which, over the long swing, may affect his industry.

It can be argued that the types of management problems described are only additive to the characteristic day-to-day issues calling for current solution. This is not the case. It has become clear that short-term decisions to be most effective should be based upon detailed long-term policies. It is not until a company has laid down a long-term plan and a procedure to carry out that plan that it is in proper position to make short-term decisions or expenditures.

Again, this new type of responsibility would appear to add complexity upon complexity, and to introduce no new procedures in terms of thinking other than the increased intellectual capacity to deal with such complications. It is here that the new approach presents promising concepts in an area of hitherto confused generalities regarding company policy.

The first and most fundamental concept around which the new management thinking appears to turn is that of the natural stratification of ideas. It was Alfred North Whitehead who pointed out that thought lies in strata which may be quite unrelated except in point of interdependence.

When we apply this concept to matters of administrative policy, we find that problems may be stratified in terms of their short-term and long-term characteristics, the latter being the more basic. An analogy is found in the movements of ocean water which may be grouped in terms of ripple, wave, ground swell, tide, and gulf-stream. In like fashion, many complex industrial responsibilities contain aspects of a day-to-day nature calling for day-to-day administration, which are superimposed upon variants of week-to-week or month-to-month significance, which in turn base themselves on certain annual considerations, which rest upon a basic layer of trends involving 10-, 20-, or 50-year characteristics.

As we move from the stratum of shortest interval to that containing the

longest swing, we find definite changes in the characteristics of each layer. The short-term issues usually are influenced by local conditions and the quality of immediate administration. They are characteristically involved with the minutiae of current detail and frequently call for careful technical and factual analysis. They may require quickness and adroitness in the making of day-to-day decisions.

At the other extreme of the stratification, we find the longest trends, usually worldwide in nature, beyond the power or control of any single individual and therefore circumstantial in character. Moreover, these long-term phenomena are characteristically simple, as their magnitude precludes complexity, and their movement is slow because of the great momentum involved.

When a problem of general policy is divided into its stratifications in terms of time-spans, it is found that each of these divisions falls naturally into the care of executives at a given level in the organization. Thus, it is possible to organize and to delegate an approach to problems of general policy in such a way that minds, trained and qualified to deal with the short, medium, or long-term aspects, are assigned to corresponding phases of the problem at hand.

An example of this procedure might be the design of general company policy with respect to work incentives, broadly considered.

At the supervisory level, periodical study of current reactions to incentives and operating problems of incentive administration may properly be assigned. At the superintendent level, a stratum of problems dealing with variations in incentive conditions in different departmental areas is pertinent, as well as such questions as the effect of seasonal changes upon their efficacy. The plant manager level would include incentive studies in relation to major changes in incentive methods or periodical annual re-examination of incentive programs. Within the bailiwick of the president lie problems concerning the status and trends of incentive administration in the company and the trade, together with long-term incentive tendencies in industry as a whole. A broader study of international trends in the general attitude of the industrial employee toward work and its rewards could be made the subject of a special investigation for the board of directors.

The new method involves responsibility for assembly and integration into a unified statement of general policy of the findings obtained at different organization levels. This responsibility obviously falls in the same category as that of the budget director in the preparation of periodical company budgets, and should be supported by a somewhat similar internal organization.

A further responsibility is that of constant activity. General policies are not static completions to be laid aside for use when called upon. Instead, they are living, changing bodies of decision, demanding periodical revision and refinement as the vagueness of the future is translated into the reality of the present.

Finally, it is of importance for these integrated policy decisions, as far as possible, to become common knowledge throughout the organization; for nothing so begets a sense of security on the part of executives and employees as the assurance that the company is vigilant in viewing not only immediate issues, but far-reaching trends insuring planned security and opportunity.

BY ERWIN H. SCHELL. *Dun's Review,* May, 1948, p. 11:9.

45 Per Cent of Public Believe Machines Decrease Employment

"DO NEW labor-saving machines like steam shovels, cotton pickers, power lawn mowers, etc., increase or decrease the number of jobs in the long run?"

This question was asked of men and women in all walks of life in 2,500 personal interviews conducted by the Psychological Corporation in 148 cities and towns from coast to coast. Interviewees were not asked the immediate effects of new machinery on jobs but the effects "in the long run." The results:

48 per cent said machinery will increase jobs
45 per cent said machinery will decrease jobs
7 per cent were uncertain.

The following differences show up in the responses of various income groups:

	Increase Jobs	*Reduce Jobs*	*Don't Know*
	%	%	%
Owners and managers	57	38	5
White-collar	55	39	6
Skilled workers	47	45	8
Unskilled workers	32	55	13

It will be seen that the belief that labor-saving machines reduce jobs is held more frequently by skilled and unskilled workers who are on an hourly wage basis. These are the people who most quickly feel the immediate effects of a new labor-saving device. The fact that they are better off in the long run does not wholly overcome the fact that they may sometimes be laid off for several weeks or months while new machines are being installed.

Family Incomes and Expenditures

THE 44 million families (one or more persons living independently) in the United States received during 1947 incomes of 199 billion dollars, reports Economic Accounting, Inc., Decatur, Ill. Incomes were received from three principal sources: work, property, and benefits received from governments. Wages, salaries, and earnings of self-employed workers accounted for 165 billion dollars of income, or 83 per cent of the total income of all families. Rents, interest, and dividends from property amounted to 17.7 billion dollars, or 9 per cent. Interest on government bonds, pensions, and benefits amounted to 16 billion dollars, or 8 per cent of the total incomes.

The total expenditures of the 44 million families last year was 169 billion dollars for living and 24 billion dollars for taxes. Total cash savings were 6 billion dollars, or an average of $136 per family.

• HIGHLIGHTING A JOB A WEEK, Marschalk and Pratt Company, New York advertising agency, is giving its staff members pertinent information about the duties and responsibilities of others in the organization, reports *American Business.* In a series of weekly bulletins under the title of *Who's Who at M & P,* copymen handle write-ups, showing how importantly each job ties in with the successful operation of the agency. Every job in the agency, from top management down, is described.

—*Notes & Quotes* (Connecticut General Life Insurance Co.) 6/48

Industry's "Open House" Programs

WHEN industry holds open house, "gates" up to 30,000 visitors per day to plants and factories are reported, according to an analysis of company "open house" programs recently completed by the Conference Board.

Almost 7 per cent of 3,498 companies state that they are now conducting "open house" programs, according to another recent study of personnel activities made by the Board. The percentage of manufacturing companies engaged in such programs is only slightly greater than in the non-manufacturing group. "As probably would be expected," the study points out, "the figures show that the practice is more prevalent among the larger companies than the smaller, but even among those with fewer than 250 employees there are some that hold open house." Of this group, 2.3 per cent report the practice, while among companies having between 250 and 1,000 employees the percentage is 5.3. Over 10.5 per cent of the companies employing between 1,000 and 5,000 hold open house, and nearly 18 per cent of the companies having more than 5,000 employees do so.

The completion of new buildings or plants has been the inspiration for the open house in some instances; in others, anniversaries have provided the occasion. Some companies used reconversion from wartime production to peacetime manufactures as the keynote for issuance of the first invitation to members of the community to view the inside of the plant. Most firms that have inaugurated open-house programs within the last two or three years, however, have built them "around no particular event but in response to a desire to have employees, their families and friends, and members of the community in general become better acquainted with the company."

The majority of open-house programs are limited to a single day, though some are continued for two or three days or even longer. While the invitation to the open house is usually extended to employees' families, it is often interpreted to include their friends. If the plant is open to visitors for more than one day, the first day usually is reserved for employees' families, with the public invited later. Most managements feel that "the fostering of better community relations begins with the employee's family, and if only one group is to be reached attention should be focused there." To insure that mothers of young children can attend, some companies on their open-house days provide for the children's care.

Special booklets are sometimes sent in advance of open-house days and serve as invitations. Some companies, instead, hand a booklet to the visitor at the beginning of the tour, to be consulted en route and to enable better understanding of what is observed. Others present a booklet to the departing guest, to be carried home as a souvenir of his visit and to refresh his memory concerning what he has seen.

Most companies arrange to have their plants in operation during open-house days. If the plant has a schedule of more than one shift, it is held that operations can proceed as usual, and employees can accompany their families and friends on their off-shifts. Or, in a single-shift plant, a skeleton force is sometimes used, made up of volunteers or employees who are specially selected, perhaps on the basis of long service or skill.

Refreshments at open-house programs often are served in the plant cafeteria, thus affording visitors an opportunity to see that part of the plant. In some cases, refreshments are served

in the employees' recreation room or clubhouse. While some companies provide refreshments en route, so that the visitors may have a chance to rest (this is done especially when the ground to be covered is extensive and much walking has to be done), the more general practice is to serve the refreshments at the end of the tour.

The alacrity with which guests accept invitations to open-house programs and the letters received afterwards demonstrate to many managements that the practice of holding open-house is a worthwhile undertaking in the field of industrial and community relations. The neighbors obviously are eager to hear the story that the plant wants to tell.

OFFICE MANAGEMENT...

White-Collar Salaries and Employment Conditions in New York City

IN almost all the clerical occupations employing both men and women covered in a recent Bureau of Labor Statistics survey of white-collar workers in New York City, average salaries for men were substantially higher than for women. The highest-salaried job, that of hand bookkeeper, paid men an average weekly salary of $64.43, women an average of $55.11. Only exceptions to this salary relationship pattern were the lowest-paid clerical workers, office boys (who averaged $30.52 weekly, four cents lower than did office girls) and male file clerks (whose average was only slightly above that of female file clerks). The differences are due in part to accumulated advances for the men resulting from greater length of service within companies, and in part to variations in salary structure and composition of the workforce among establishments.

The study covered a total of 884 companies,* employing slightly more than 375,000 workers of all types. These establishments employed about 154,000 office workers. The survey provides information for 23 occupations. Women outnumbered men in all except two of these occupations, but men were sufficiently numerous in 18 jobs to warrant presentation of occupational averages.

Though salaries for clerical workers are generally expressed in weekly or monthly terms, the salary rates were converted to an hourly rate by the Bureau to allow for differences in the length of the workweek. On this basis, the occupational averages for women

* The companies included 264 local manufacturing plants, 182 wholesale trade establishments, 181 in finance, insurance, and real estate, 94 in services, 87 in transportation, communication, and other public utilities, 60 central and administrative offices of manufacturing establishments, and 16 in retail trade. Of the total, 187 employed more than 500 workers, 185 were in the 25-to-500 category, 315 had between 101 and 250 workers, and 197 employed at least 51 but not more than 100 workers.

ranged from 82 cents for office girls and 87 cents for routine file clerks to $1.46 for hand bookkeepers and $1.31 for technical stenographers and one group of bookkeeping machine operators. Of the 23 occupations, 10 showed averages of from $1.10 to $1.20, and six were between $1 and $1.10; three averages were below $1 and four above $1.20. The hourly average for general stenographers was $1.17; for clerk-typists, $1.01; and for general clerks, $1.09.

Men's salaries, on an hourly basis, were: office boys, 82 cents; routine file clerks, 86 cents; certain bookkeeping machine operators, $1.53; hand bookkeepers, $1.71. The remaining job averages were well dispersed, between $1 and $1.50, with most of them substantially over $1.10.

In the employment of office clerical workers, certain working conditions and benefits which supplement pay are relatively significant. They are taken into consideration in the employee's evaluation of his economic status and determine, in part, the degree of general satisfaction with which he views his position. Many informal practices exist which cannot be measured or evaluated. Other practices and benefits have been formalized. Following are some of the survey findings on these conditions and benefits:

In general, salary rates for specific functions were a matter of individual determination. Only 159, or about 18 per cent of the firms, had formalized salary rate structures. All except 10 of these had systems providing for rate ranges within specific occupations. However, in most of these establishments the progressions within the rate ranges were not automatic but were based on merit reviews (i.e., on periodic reviews of individual attainment).

In the largest establishments, formal rate structures were more prevalent than in other size groups. More than 40 per cent of the firms with 500 or more workers (77 out of 187) had formalized their office worker salary structure. In the other size groups, the incidence of firms having formal rate systems is 26 per cent in the 250-500 group; 10 per cent in the 51-100 class; and less than 8 per cent in firms with fewer than 100 workers.

Slightly more than seven out of every eight establishments employing men office workers operated on a five-day workweek. For women workers, the prevalence of the five-day week was even more pronounced; 800 out of 879 establishments employing women operated on that schedule. Concentration of the five-day week standard was heaviest in the manufacturing establishments in which all the central and administrative offices reported a five-day workweek and all but a negligible number of the plant offices operated on this plan.

In terms of number of hours per week, there was a wide range of schedules, with the largest concentrations at 40 hours, 35 hours, and 37½ hours. The 40-hour week was reported most frequently and about 40 per cent of the offices had this workweek for women and about 35 per cent for men. Next in importance was the 35-hour week.

All except six of the 884 establishments had paid vacation provisions for their office workers. In 45 per cent of the firms, vacations were available to employees after six months' service. In three-fourths of these firms, the provisions were for one-week vacations. All but one of the firms provided for paid vacations after a year's service, with two weeks granted in 87 per cent of the companies.

In all industries combined, about 30

per cent of the firms observed 11 paid holidays; about 20 per cent observed seven; only nine companies reported fewer than six.

Slightly more than 20 per cent of the firms had formal sick-leave provisions; in almost three-fifths of these, provisions are effective after accumulation of six months of service or less. Time allowances ranged from less than one week to more than three; about two-thirds granted at least two weeks with pay after two years of service. Many companies reporting no formal sick-leave provisions do pay sick leave but handle the problem on an individual basis.

About 65 per cent of the firms had insurance or pension plans, providing general life insurance, health insurance, retirement benefits, or combinations of these benefits.

Non-production bonuses were paid in about 48 per cent of the companies. Typically, the bonus was a Christmas or year-end payment. Slightly more than a fourth of the Christmas bonuses consisted of flat sums; in the remaining instances, the amounts varied according to the individual worker's earnings or other factors, such as length of service. In about 12 per cent of the firms, bonus payments were of a profit-sharing or other character.

From *Office Workers: Salaries, Hours of Work, Supplementary Benefits (New York, N. Y., January-February, 1948)*. Bureau of Labor Statistics, U. S. Department of Labor, Washington 25, D. C. 58 pages.

Put Sales Appeal into Company Offices

THIS year a choice little army of companies lucky enough to find the space and materials will spend tidy sums to give their offices the "new look." Only a fraction of them, however, will end up with quarters that translate the company's business at a glance to the visitor or prospect.

With little extra effort and expense, according to Evan M. Frankel, head of the building and designing firm of Ross-Frankel, New York, many companies can pack sales appeal as well as smartness into their offices.

Here are some basic recommendations for manufacturers:

1. Devote some portion of the office space to actual production or handling of the company's products. For example, if a firm makes toothpaste, a miniature production line in some corner of the office serves to dramatize company operations. Some concerns install real production lines in their offices and make them profitable.

2. Don't arbitrarily decide on a color scheme simply because some executive's wife thinks it goes well with her husband's eyes. If a company is old and established and desires to preserve that illusion, a dark, woody color is the answer. For newness, bright, modern hues are most effective.

3. Place designing of new offices in the hands of a competent architect.

—*Modern Industry* 3/15/48

• IN ORDER to lessen the government's serious shortage of stenographers, the Civil Service Commission has reduced the required dictation rate from 96 to 80 words a minute. Thousands of stenographic jobs are open in the nation's capital with a starting salary of $2,168 a year.

—*The Employment Counselor* 6/48

How Do You Spend Your Salary Dollar?

By EDWARD C. SCHLEH*

WHY do many of us often administer our salary program as a series of crises solved by spot decisions that meet the current problems? While these decisions seem to give an answer at the time, they often lack cohesiveness, or a common approach, so that too frequently we are forced to solve future problems also as crises. Thus we achieve a general series of precedents which are hard to follow and expensive to apply. Every personnel problem tends to become a case for a jury of management or of management and union men. We find too that our policies become looser step by step, and employees begin to feel that pressure or pull gets them more consideration than good production.

As a substitute for this approach, we might develop a sound philosophy, a statement of the goals of the compensation program of our firm. Such an approach is not easy at first in that a clear statement of the prime objectives along with the secondary aims involves many broad considerations and some clear down-to-earth thinking. When, however, we have thought out such a series of objectives and have tied in various parts of the compensation plan with it, we will generally find our problems easier to solve, our crises minimized, and an increased return for our payroll dollar. We can sell supervisors and employees on the program more easily since there are sound reasons for each phase of it. We can also more easily teach them how to use it.

In developing such a philosophy, we will first want to decide on the over-all basic value of the salary function to the company. Perhaps we would conclude that these costs, like other operating expenses, ought to pay for themselves. Aren't salaries, like every other expense, a cost for a service to the company—a cost that, expended some other way, might bring the company a higher return? Why shouldn't we in management weigh each salary carefully from a cost-return point of view?

Along this line of reasoning, we might say that the main objective of our salary program is to get the greatest possible output of profit for each dollar of cost, in this case a salary dollar. We might ask ourselves, why not pay 10 or 20 dollars more—why not 10 or 20 dollars less? To be realistic wouldn't our answer then have to take into account the results to the company from paying more or less in salaries? Would Jack, Jim, or Mary produce more with 10 dollars more? Where there is no apparent return, any increased cost might well be questioned.

If this approach is used, we may view such broad factors as geographical variations and cost-of-living changes in a different light. By themselves they may be confusing to interpret, but in the light of our basic philosophy they might assume a place of secondary importance in our decisions. The weight of such things as education, experience, and personality may also seem small except as they contribute to an increased return to the company. Of each job we might ask whether the characteristics thought necessary add much to job output.

We may wish to review our approach to the question of automatic increases. If we are to give automatic increases, what increased return may

* Executive Secretary, Personnel Surveys, Inc., Minneapolis, Minn.

we expect to receive for them? Might it not be more logical to base increases on merit and merit in turn on greater production? If so, any merit raise should then be justified in this way. We might question whether this is true in fact or whether we tend to think of some of them as automatic.

With the searchlight of our philosophy we might then focus on other benefits as part of the compensation plan. For instance, what is the logic in including an employee or a group of employees in a profit-sharing or bonus plan? Does the company get a greater return in terms of more production from the expense? Must frequent concessions be made not justified by output? Perhaps we should widen the scope of our thinking on compensation plans by including fringe benefits under them. Aren't they a type of compensation? They certainly cost money. If our firm pays toward any of these benefits, what return does it receive? Is an increase in morale realized, and if so, is there a greater increase in production? We might well ask whether we frequently assume the former and do not bother to check the latter. Let's ask ourselves whether the company would lose or benefit in output if any one plan were changed or cut out. In other words, are these in some cases merely the gold plate on the machine?

As we carry this analysis further we may find that certain key jobs contribute heavily to the company and many others simply assist. In getting results for our firm, will a higher salary on the former jobs secure a greater result? Which jobs pace the operation? In looking at supervision, we might question why a supervisor should receive a fixed percentage more than his subordinate. Let's ask rather how much greater effect on profits he has. Perhaps in this way we would change our organizational set-up and make sure that supervisory jobs are key jobs to those supervised.

Perhaps we want to compare our over-all salary structure with a survey of some type. We might bring up the question of whether we should pay below, above, or the same as the average of the survey. Experience seems to show that salaries above those shown in surveys of comparable jobs do not alone attract higher caliber employees. In fact, lower than average rates do not necessarily turn away good applicants. We should also keep in mind that many times jobs that appear similar are of different value to different firms. For instance, can a cost accountant make the same contribution in every firm? If not, why pay the same salary? Perhaps we should bid high for certain jobs of great value to us. It may be expensive, though, in terms of return per payroll dollar always to outbid our competitors.

How do we start to apply this philosophy in our firm? One way is to work out a relationship of return to the company compared to salary for each job. An over-all relationship that may be helpful is that of the return to the company compared to the salary expense of an organizational division or section. This tends to highlight over-all divisional or sectional payroll costs and sometimes helps us get a clearer perspective frequently leading to departmental personnel budgets. Generally over-all organizational planning based on objectives of division, sections, and jobs is called for as a starting point.

When such a philosophy is worked out, approved by management, and carried to all supervisors and em-

ployees, it tends to encourage results and to aid the supervisor in the selection, improvement, and payment of his employees. Employees themselves are more readily sold in that it is easier to show them what is expected of them. The program, when carried out fully, encourages results thinking. Since we look at a salary, a raise, or a benefit from the results viewpoint, we automatically must view each as it affects each individual person's interest and production. We may then find that an over-all company policy is not always best but instead think of the effect on each group of employees. Do men, for instance, have the same interests as women? Difference in benefits may be advisable. We make use of all the studies of worker opinion and interest. We apply them in the many places they aid in lighting the way to our objective. Supervisors become more aware of the importance of timing, of talking with the employee, and, in fact, of actual results expected of their section. Our salary administration program therefore becomes not a necessary and inflexible evil but instead a vital and sensitive instrument needed to obtain greater efficiency and more production.

How to Establish "File Breaks"

UNIFORM files are easy to set up if it is known in advance approximately how much drawer space each alphabetical division will require. Presented below is a handy guide from "Systems," which is invaluable in determining the needed file breaks. It is the national list of letter frequencies given in percentage figures (in this case, the frequencies in a list of 10,000,000 or more).

A	3.0	I	0.4	R	5.0
B	10.0	J	2.3	S	10.3
C	7.2	K	4.2	T	3.3
D	4.7	L	5.0	U	0.3
E	2.0	M	9.7	V	1.5
F	4.0	N	1.7	W	6.3
G	5.0	O	1.4	X*	—
H	7.6	P	4.0	Y	1.0
		Q	0.1	Z**	—

* Frequency given for a list of 65,000,000 or more: 0.003
** Frequency given for a list of 65,000,000 or more: 0.655

—*The Controller*

AMA OFFICE MANAGEMENT CONFERENCE

A Conference of the Office Management Division of the American Management Association will be held on Tuesday and Wednesday, October 26 and 27, 1948, at the Hotel Pennsylvania, New York City.

PERSONNEL...

Mass Vacations Take Hold

MASS vacations with plant-wide shutdowns will be so general this year that they will have an important effect on industrial operations. A *Business Week* survey shows that hundreds of companies plan to halt production to give factory workers their vacations all at once.

The mass vacation idea has caught on strongly in a short span of time. Roots for this new seasonal trend were sunk deep in the days of World War II. At that time, vacations for factory workers began to be accepted as standard practice rather than a novelty. Vacations with pay were given in lieu of wage increases because of the wage-price freeze. The vacation trend continued to grow in the postwar period, with more and more union contracts providing for paid vacations. But employers found high-level production difficult to maintain when key workers were away. Thus many managements decided to close their entire plants down and get all vacations out of the way at the same time.

Some industries and some companies, however, are not adopting the plan. Those who mass-produce items in a competitive field hesitate to shut down for fear a rush order might be missed. Companies that have continuous process operations will not stop production if it would be too costly or otherwise impractical. If they give vacations, the time-off periods are on a staggered basis.

Companies that have had a happy experience with all-at-one time vacations claim these advantages:

(1) If vacations are spread over the summer months, production is inefficient during most of that season.

(2) A shutdown provides an opportunity to get major maintenance and repair work done without interfering with production flow.

(3) Personnel problems are minimized. There is no confusion and bother over the job substitutions and reassignments that have to be made when vacations are staggered.

But mass vacations come in for criticism, too. Complaints have been made by workers, who have been taking vacations, with or without pay, at a fixed time each year. If the plant shutdown date doesn't coincide, it means breaking up long-established vacation and touring groups.

Customers have squawked when they could not get shipments of emergency replacements or repair parts during the shutdown. This fault has been corrected generally by companies keeping a skeleton crew in their shipping departments.

Mass shutdowns are putting a strain on summer resorts and transportation services. The New England Council, for example, has urged manufacturers in its area to shut down at different times of the year.

How mass vacations are catching on is shown in city-by-city reports:

Chicago. Employers' Association of Chicago made a recent survey on this

year's plans. Here are the results from 322 reporting companies: 4.6 per cent will shut down the entire plant; 56.8 per cent will not; 1.6 per cent gave miscellaneous replies. Of those who will shut down, 94 per cent said they would not consider returning to a staggered system. And 19.7 per cent of those using a staggered system said they were considering a switch to mass vacations.

Cincinnati. Five out of 10 of the largest industrial firms will give workers vacations at the same time; two others will use modified shutdown plans; three will stagger vacations. The Chamber of Commerce says the simultaneous closing idea is still spreading gradually, with 25 per cent to 30 per cent of all Cincinnati firms using it.

Minneapolis. Out of 96 reporting firms, 63 have plans for a complete shutdown of one or two weeks this summer, as against 59 companies last year.

Kansas City. Most companies use the stagger plan for vacations. But Union Wire Rope Corporation has a regular policy of closing around the first two weeks in July to get heavy and vital maintenance work done. Of course, Kansas City firms feel the effects of suppliers' shutdowns in other areas.

Philadelphia. The swing toward shutdowns for vacations is accentuated this year. Continental Mills has been closing down for two weeks the last five years. John B. Stetson Company closes whole departments. Leads & Northrup is using its last year's plan—half the force off the first two weeks in July, the other half during the last two weeks in August.

Boston. Plant shutdowns for vacations are becoming standard policy. Waltham Watch Company is one of the oldest advocates of mass vacations. Gillette Safety Razor Company started its vacation payment plan in 1934 and then inaugurated its mass vacation policy.

Pittsburgh. Complete shutdowns are more prevalent among smaller companies of the district, but certain departments of larger firms also close. The staggered vacation plan is the practice in a major part of the steel industry.

Atlanta. Firms using the staggered system and those using seasonal shutdown systems are split about even. The trend slightly favors shutdowns now, whereas in previous years it inclined toward staggered vacations.

Los Angeles. Though nearly all manufacturers of the area will stagger vacations this year, sentiment for giving every vacation in the plant at the same time is growing—mostly among smaller firms. About 25 metal-trades plants will close this summer; only three or four did so two years ago.

Portland. Shutdowns are generally followed by Oregon lumber companies but they are optional with individual mills. Other users include Hyster Company (machinery) and Doernbecher Manufacturing Company (furniture).

Business Week, May 29, 1948, p. 19:2.

• THE PHONE SHORTAGE got the bird recently from an Ipswich (England) furniture company. After waiting weeks for a phone to be installed, the company sent rush orders to its factory at Lewisham, a London suburb, by carrier pigeon. After the first week's trial, the company voted it a success. The birds fly 75 miles an hour, and the company said each pigeon could carry several orders at a time, if they were written on rice paper.

—*Daily Mirror* 7/12/48

Trends in Employee Benefit Clauses

THE wartime growth in the number of health and welfare plans in union agreements has continued well into the postwar period. During the war, the "freeze" on direct wage increases, coupled with favorable tax allowances, encouraged the spread of benefit plans, many of which were instituted by management on a unilateral basis. Some of these were incorporated in collective bargaining agreements, however, and during the first postwar years there has been a significant increase in the number of contract clauses setting up benefit plans or making some provision for them.

Early in 1947, it was estimated that the number of workers covered by collective bargaining contracts providing some form of health-benefit plan had more than doubled since 1945.* The estimated number had increased from about 600,000 to 1,250,000. Since February, 1947, however, the total coverage has undoubtedly climbed well beyond the 1,250,000 mark.

Some indication of the *present* frequency of health and welfare plans in union agreements may be gained from the fact that a recent examination of 325 contracts—carefully selected for over-all representativeness—produced 100 which contained *some* reference to such plans. This proportion would indicate a considerably higher coverage in industry at large than does the 1947 estimate.

The kinds of health and welfare benefits found in current agreements fall almost entirely into nine categories: life insurance, death and dismemberment insurance, occupational sickness and disability benefits, non-occupational sickness and accident benefits, hospitalization, surgical, and other medical expenses, retirement allowances, and maternity benefits.

Of the contracts which do not specify benefits of any particular kind, most state simply that "existing benefits" shall continue for the life of the agreement. Contracts calling for study or negotiation of benefit plans, while few in number, happen to include several key companies and unions in the heavy manufacturing industries — relatively new ground for benefit planning on a contractual basis.

Perhaps the only certain thing that can be said concerning the substantial nature of benefits granted through collective bargaining is that individual plans differ considerably and over-all programs even more; for example, life insurance policies on a group basis usually start at $500, but there is at least one example in the agreements studied of a $250 plan. Non-executive personnel rarely receive more than a $2,000 policy, and most plans provide for $750-$1,000. Certain other agreements, however, grant considerably higher coverage by scaling the size of the policy to the annual salary received. Death benefits (usually designed to provide for accidental death) are generally comparable to insurance coverage but in a few cases are double that amount.

Hospitalization is frequently of the Blue Cross variety. Six contracts actually specified this plan, and numerous others clearly called for this or similar coverage. Other contracts specifying hospital payments most frequently provided $4 per day and occasionally $5. In a few cases, $5 was provided for employees and $4 for their dependents.

The usual surgical benefits provision

* Bureau of Labor Statistics, "Union Health & Welfare Plans," *Monthly Labor Review*, Feb., 1947.

calls for coverage up to $150 with an occasional allowance for related expenses, such as X-ray, anaesthetic, etc. Other medical benefits are rarely described in detail, but in certain agreements, mainly those setting up union trust funds rather than purchasing commercial insurance, these other medical provisions call for clinical treatment of ambulatory cases and, more rarely, paid visits to the doctor's office or by him to the home.

Only two of the retirement plans called for in the agreements analyzed specified the rate of pay granted. In one case, $600 *per annum* was named; in the other, a minimum of $300 above Social Security benefits. A scale provided in this latter agreement called for 1 per cent of earnings over $50 a month for each year of future service. Sixty-five is the usual retirement age.

Occupational disability benefits generally cover waiting periods until workmen's compensation becomes operative (at the same rate of such compensation) and may then supplement the compensation in order to make up 40 hours' pay for each week lost.

Sickness and accident benefits vary from a fairly common provision for $10 a week for 13 weeks (excluding the first seven days), to half pay for 26 weeks. One type of plan calls for payments up to $30 weekly. Several arrangements call for $15, $16, $17.50, and $20.

Maternity benefits in a number of different agreements call for: (1) two to four weeks' pay depending upon length of service; (2) six weeks' pay plus obstetrical charges; (3) double vacation pay; and, in another case, (4) up to $236 in cash.

Membership in nearly all plans is voluntary. Only one contract within the sample studied specified compulsory membership. However, a second stipulated that participation in any part of a comprehensive welfare plan required participation in all of it.

Both the administration and the objectives of future health and welfare plans are regulated by provisions of the Taft-Hartley Act. Administration of such plans, where financed wholly or in part by employer contributions, must be joint—with impartial representation or at least a provision for it in the event of disputes. Permissible objectives cover all those presently aimed at by unions (the apparent purpose of specifying types of benefits was not restrictive but presumably to prevent diversion of funds).

Collective Bargaining Negotiations and Contracts (The Bureau of National Affairs, Inc.), March 19, 1948, p. 15-101:7.

New Features in Union Contract

LIBERAL vacations, sick-leave and holiday policies established in practice by Perkins Machine & Gear Co., Springfield, Mass., have been formally incorporated in a new contract with the plant's labor union—AFL. After one year's employment, workers may obtain a two-year leave of absence for sickness or non-industrial disability. Meanwhile their seniority is accruing.

Another provision of the contract gives preference in the selection of lighter work or less-skilled jobs to older employees unable to perform regular work.

Four paid holidays and one week vacation after one year of employment, two weeks after three, are provided. Both are safeguarded: To collect holiday pay, workers must be on job the day before and the day after the holiday; and to receive his vacation, employee must have worked at least 200 days in the previous year.

—*Modern Industry* 3/15/48

Determining Industrial Relations Policies: A Survey

FREQUENTLY, during the past, the clarification of personnel and labor policies and of procedures for their determination has lagged far behind the development of techniques incidental to their application. It may augur well for the future of management-labor relations that industry has been giving increasing attention to labor policies and their determination.

Presented here are some of the findings that emerge from a study of the procedures followed in the determination of industrial relations policies in 84 companies. The study was undertaken to help meet the need for more detailed information on the problems that occur in connection with policy determination, and it aimed to secure information on the allocation of responsibility for final decisions on major personnel policies as well as on procedures followed in their formulation. The questions asked of industrial executives sought also to find out to what extent, in their opinion, outside influences had affected procedures in policy determination during the past 10 years. The companies surveyed were chosen from among those with long and fruitful experience in handling industrial relations problems. Consideration was given the representative nature of the group in respect to size and industry. The firms range in number of employees from 250 to over 250,000, and are principally multi-plant.

The findings suggest the need for continued study of the development of personnel and labor policies as one aspect of general management. The conclusions are limited to comments on three broad problems of policy determination. Two of these, important in the development of all management policies, need special review in connection with major changes in industrial relations; the third is a problem that results more specifically from an increase in the number of policies subject to joint union-management determination.

The responsibility for final determination of "major"* industrial relations policies rests with top management in all but a few of the reporting companies. Lesser policies may or may not be determined by a lower echelon, depending on the company's emphasis on centralized or decentralized management.

Two principal types of organization for the determination of major policies were found: (1) one in which policies are determined by a committee or board, the members of which represent all the principal operations of the company (considerably more than half the reporting firms have this organization); (2) one in which decisions are made principally by one or two individuals. In the latter group, the board chairman, the president, or another officer responsible for decision often leans heavily on the advice of a committee or of the personnel staff. In some instances, however, decisions are made after consultation with only one or two other executives.

Reported changes in the levels of policy determination in the past 10 years have been both up and down. More frequently, however, the move has been toward a higher echelon. New policy committees are giving an increasing amount of time to the discus-

* What constitutes a "major" or "minor" personnel policy varies not only from company to company but also from time to time within a given company. The earmarks of a major policy appear to be three (which, however, may change with changing circumstances): (1) a large sum of money involved; (2) more than one plant will be affected; and (3) the decision may have some effect on the relative bargaining strength of the company and union.

sion of personnel and labor policies. The chief personnel officer has been given a more important role in policy matters in more than one-fourth of the companies. This higher status more often has involved membership in a policy committee than increased individual responsibility for decisions. Such membership is felt to afford the personnel officer opportunity to keep well informed on all important developments of general management as well as to permit the personnel point of view to be presented more effectively.

The formulation of industrial relations policies is, in a large majority of the 84 companies, the responsibility of the industrial relations staff. Being alert to needed changes and recommending changes in policy are parts of the function of the staff, shared to varying degrees by line executives and special policy committees. Some formal arrangement for channeling suggestions for change from middle management to the policy-determining group is needed, it is clear, if any substantial help is to be gained from the line executives and supervisors. Similarly, supervisors have been found to give most constructive suggestions in the formulation of policies when specific policies in tentative form are submitted to them for criticism. In recent years, supervisory aid has been sought most frequently with regard to policies incorporated in the labor contract.

The reported experience indicates that the participation of supervisors in the development of industrial relations policies may require a long-range program of foreman training, and that the first result of their participation may be a slower pace in policy-making. Nevertheless, companies that have secured widest participation are convinced that, in the long run, it is worth while both in terms of improved policies and more effective administration.

The influence of consultants on industrial relations policies appears to be negligible in the majority of companies. In approximately one-fourth of the 84, however, consultants have recommended important procedural changes in connection with a general survey of a company's organization, or they have had considerable influence as regular members of management committees.

Variations from the common pattern of policy determination were observed in connection with almost every type of industrial relations policy. Employment and training policies, which are most frequently determined at the plant level, may be of interest to top management when they involve the maintenance of adequate executive timber or large financial commitments, as in plans for guaranteed employment. Policy determination for health and safety varies principally in that, in a number of companies, it is the responsibility of a director of health or safety who reports to someone other than the chief personnel officer. Line supervisors and union representatives participate in safety matters more frequently than in any other one type of policy.

The determination of policies affecting or subject to collective bargaining is most complex. This complexity is due not only to new elements introduced by joint determination, but also to the fact that the management level at which decisions on contract clauses are made is often not the level at which negotiations are conducted.

The outstanding characteristic of policy decision with respect to employee security is that policies relative to individual job security are determined

primarily through collective bargaining at a local level, and that group plans are determined for the most part unilaterally on a company-wide basis. This general practice of unilateral determination of policies affecting group employee security is, in many companies, under attack by unions which seek to bring these plans within the scope of collective bargaining.

On the whole, the findings of the survey indicate the past 10 years have brought substantial improvement in company procedures for the determination of industrial relations policies. Among the companies cooperating in this study, changes in policy determination have often been part of an attempt to clarify management functions in general. The changes dealing specifically with industrial relations policies have most commonly involved: (1) wider participation of high executives representing the principal divisions of a corporation; and (2) the more frequent participation of the chief personnel officer in discussions concerning the impact of general management policies on personnel relations. These two developments have resulted, in many companies, in the more satisfactory integration of the personnel function with management as a whole.

The findings of this study indicate, however, that in some cases the increased specialization of the personnel function has magnified certain problems. The personnel officer, for instance, who is responsible for decisions on policy may be less successful as an adviser. Line executives who have little voice in policy determination may have little interest in the application of the policy. Even in those companies in which the principal industrial relations policies are determined by a committee representing all divisions of a company, the large middle and lower management groups are not often encouraged to participate in policy development.

Continued progress in the development of sound personnel policies requires continued study of various organizational problems involved in policy determination. The reported experience of these 84 companies suggests that most concerns could profitably give more attention to the following aspects of policy determination:

1. *The clarification of the objectives and limitations of any general policy for the centralized or the decentralized determination of personnel policies.* If uniform, centrally determined personnel policies are sought, top management must be sure that fundamental differences in operating units are taken into account both in the development and application of policies. If a high degree of decentralization is sought, a clear statement is needed of the basic guiding policies that set the pattern for policies determined at lower levels.

2. *The importance of the integrated effort of line and staff in policy development and decision.* The responsibility of each line or staff executive for policy development or decision should be understood by everyone involved in policy determination. As greater responsibility in policy matters is placed upon the staff specialist, care should be taken that the move strengthens rather than weakens the line executive upon whom good personnel relations ultimately depend. The outcome in this respect is affected by good or bad relations between the various levels of the line organization as well as between the personnel staff and line officers.

3. *The possible effect on management procedures of the increasing pres-*

sures against unilateral decision respecting specific industrial relations policies. Management needs to consider how a change from unilateral to joint determination of a policy may affect its own procedures. Foresight and planning of alternate courses of action in case of limitations on unilateral decisions may help a company avoid serious transitional problems in connection with specific programs.

From *Management Procedures in the Determination of Industrial Relations Policies.* By Helen Baker. Department of Economics and Social Institutions, Industrial Relations Section, Princeton University, Princeton, N. J. 82 pages. $2.00.

Suggested Course for Foremen

THE following outline is suggested as a curriculum or course of study to be followed by the foreman aspiring to professional status. Such a program can be, and in many cases is, carried on within the personnel training program of large organizations. Smaller companies or individual supervisors might undertake such a program with the cooperation of local vocational and technical schools, evening adult education agencies, or in some cases with university extension departments and qualified correspondence schools.

In individual cases, personal experience might well substitute for formal training, and it is suggested that, whether the various subjects are rated as being equivalent to college courses or not, the foreman indicate his capacity in each avenue of activity and thought by passing suitable tests—written, oral, or performance.

The following subjects are indicated on the basis that each be given study equivalent to a 3 semester hour college course, or approximately three hours a week for 16 to 18 weeks:

1. *Survey of the Foreman's Job*—Three hours, 16-18 weeks: functions of foremen, interpretation of policies by foremen, supervisory and non-supervisory work by foremen, selection and advancement of foremen.
2. *Labor Relations*—Six hours, 16-18 weeks (equivalent of two terms): arbitration, bargaining unit, discriminatory practices, handling grievances, union activities.
3. *Labor Legislation*—Six hours, 16-18 weeks (equivalent of two terms): analysis and study of current labor legislation, especially as it applies to supervisors' rights, duties, limitations, etc.
4. *Personnel Management I*—Three hours, 16-18 weeks: hiring, placement, recruiting methods, induction programs, on-the-job training of personnel; *Personnel Management II*—Three hours, 16-18 weeks: termination of employees, exit interviewing, layoffs, resignations, seniority, reductions in force, etc.; *Personnel Management III*—Three hours, 16-18 weeks: training of personnel; *Personnel Management IV*—Three hours, 16-18 weeks: rules and regulations, absences, benefits, discipline, passes, emergencies, handling of debts, counseling, etc.
5. *Wage and Salary Administration*—Six hours, 16-18 weeks, two semesters: hours of work, incentive plans, employee performance rating, job evaluation and rate setting, payroll administration.
6. *Safety and Health*—Three hours, 16-18 weeks: accidents, disease, occupational hazards, safety training of workers.
7. *Accounting I*—Six hours (equivalent basic college course, two terms).
8. *Accounting II*—Three hours, 16-18 weeks: cost accounting, turnover, personnel records, etc.
9. *Maintenance and Housekeeping*—Three hours, 16-18 weeks.
10. *Work Simplification*—Three hours, 16-18 weeks.

—EDMUND MOTTERSHEAD in *Industrial Relations* 10/47

Forum Technique Gives Economic Facts to Workers

TO keep its employees fully informed on company policies and plans affecting their jobs and welfare, Elgin National Watch Company, Elgin, Ill., is staging a continuing series of forums at which employees discuss, with top management officials, the particular phases of the company's operations in which they are interested. The program was started in January, 1947, under the direction of the president, T. Albert Potter, and operated under the supervision of M. J. Hill, personnel director.

The program and mechanics of the forums were set up with the cooperation of the unions. Topics to be presented were brought up at union meetings and members were encouraged to ask questions to be submitted for discussion at the forums. A list of employee representatives scheduled to attend each meeting is posted on company bulletin boards well in advance.

Speakers scheduled to appear at the forums are given adequate notice to prepare charts, slide films, etc., and are instructed to answer any and all questions no matter how embarrassing they may seem. This is a positive requirement since the failure of any speaker to answer one question at a "no-holds-barred" session would irreparably damage the prestige of the entire effort. Typical of the frank attitude was the session at which the president of the firm was called on to explain why he was worth the salary he was making.

To reflect employee interests and sentiments as a guide to the speaker on subject matter and topical emphasis, a preliminary meeting is held with 15 representatives of employee groups and nine members of management on the supervisory level present. This group discusses the general field to be covered by the speaker and forwards its recommendations to him.

At the main forum, 27 employees selected from different departments by their shop stewards and supervisors hear the formal presentation by a member of top management. A different group is chosen from each department to attend the various forums. Following is the question-and-answer period.

Minutes of the meetings, held on company time, are taken by volunteers and an exact transcript taken by a company stenographer. Later, these volunteers discuss their draft with the speaker, and it is checked for competitive trade information before being published. A copy of the report is sent to all employees, pensioners, and directors. At the request of the employees, a full report is now published in the house organ *The Watch Word*.

To check the readership of these reports, a secret ballot was distributed to employees. More than 90 per cent read the reports, 86 per cent of those reading them found them worth while, and 70 per cent wanted them run in the house organ to be clipped for further reference. Comments contained in the ballots were exceptionally good.

Among the most popular meetings were those explaining the company's sales program and advertising efforts. The company's ad manager outlined the history of Elgin advertising and the contributions of American advertising itself; how it has created jobs, raised the standard of living and reduced the cost of goods. Howard D. Schaeffer, vice-president in charge of sales, took one group on a tour of Chicago jewelers where they asked searching questions about product performance, competitive products and point-of-purchase sales.

The method of getting employees to select their own questions for discussion was particularly useful in the sessions on financial and economic developments, conducted by secretary-treasurer John Biggins. Describing the function of capital in providing the finest production equipment and research, Mr. Biggins personalized the 3,500 stockholders by noting that more than half owned less than 100 shares each for an average of 35 shares, that one-third of them lived in Elgin and that about 350 were employees of the company, remarking:

> Did you know that more than 3,124 shareholders, or nearly 90 per cent, represent people of moderate means who have invested in our company savings accumulated out of their salary or wage earnings, perhaps at a rate as low as $1 per week?

Explaining the figures and meanings of the financial reports, he also compared the tax payments with those to dividends and employees, and listed the $10,000,000 annual payments for employee benefits other than wages. Here again the publication of subsequent reports, for reference use, proved valuable.

In addition to the company's own top officers, outside speakers such as Dr. Alfred Haacke, internationally known economist and lecturer, addressed the forums. Dr. Haacke spoke on the basic fundamentals of industrial economics, and so impressed the employees that they asked to have him speak before the entire factory personnel.

An analysis of the forum technique at Elgin reveals a number of beneficial points in this low-cost operation—$1.40 per employee for the entire series of 12 discussions:

1. Wholehearted personal participation is given by top management.
2. The ability of the personnel department to function effectively on behalf of the employees was demonstrated.
3. Employees themselves build the forum programs in cooperation with management.
4. In the course of a year, some 350 employees had first-hand contact with management thinking and the responsibility of reporting back to their fellow workers.
5. The meetings were conducted on a basis that avoided criticisms of paternalism or propaganda.
6. A sound background of information that the employees themselves had requested was accumulated and passed on.
7. Management learned that employees cannot pick up adequate information about their company in the confines of their own working areas.
8. Both employer and employees soon recognized that they were working on the same team, toward common goals.
9. Employees were assisted in evaluating their jobs in relation to job security and job loyalty.

Such a forum technique should prove helpful to other companies seeking methods that will provide employees with confidence-building information and overcome dangerous delusions.

Trusts and Estates, May, 1948, p. 394:3.

• THE MAJORITY (35) of firms surveyed (39) in the chemical industry recently by the Industrial Council of the Philadelphia Chamber of Commerce do not permit smoking indoors in their plants; 15 companies, however, indicated they permit smoking in specific indoor areas set aside for that purpose. Three companies provide outdoor shelters where employees may smoke; 36 do not make such provision.

Selling Job Evaluation Through Visual Instruction

TO INCREASE understanding and acceptance, by all organizational levels, of its job evaluation survey program, Metro-Goldwyn-Mayer studios (Los Angeles) has developed explanatory visual aids as the basic framework of its conference presentation of the program.

The job survey staff developed rough designs for the explanatory visual aids to have continuity much like a slide film. The art department prepared 16 posters—black-and-white and color—30 × 40 inches in size.

The graphic arts items explained: (1) the purpose of the job survey; (2) the method used to gather job facts; (3) how factors used to evaluate the jobs are selected; (4) how jobs are evaluated by the factors and degrees of factors; (5) common misconceptions about job evaluation; (6) how the evaluations are related to wage-setting.

The visual aids were shown to the union officers, business agent, lot stewards, studio department heads, supervisors, and all employees whose jobs were to be surveyed, in meetings taking place over a three-month period. Presentation of the visual aids took an average of 30 minutes.

When the job analysts contacted the employees to obtain information about job duties, they found, in the majority of cases, that employees had prepared rough notes of their job duties, and did not suggest that unrelated facts about their abilities, length of service, or efficiency, be placed on the record. Employees questioned as to their understanding of the visual aids, from messenger to research specialist, indicated that they had grasped many of the fundamentals of the job survey project objectives.

The success of the program convinced Metro-Goldwyn-Mayer that the visual aids approach could be adapted still further to explain the fundamental concepts of job evaluation to management, supervisors, and employees for use in many organizations. Thus the studios produced in a sound slide film in color an expansion of the original, static visual aids presentation, which had three advantages that the graphic arts did not have: (1) the subject matter coverage could be expanded; (2) the period for presentation could be shortened; (3) subject matter could be more strictly standardized.

To explain the "why" of job evaluation, the film tells the story of a fictional company. The first part of the film is devoted to the growth of the fictional company, covering the problems resulting from lack of a company-wide wage policy. The second part tells what the company did to develop a systematic method of wage administration, stressing: (1) the fact-gathering or job description process, (2) the facts considered in evaluating jobs, (3) fundamental concepts behind the evaluation process, (4) a brief explanation of how the evaluations are tied in with wage-setting. The third section of the film concludes the presentation with a summary of the advantages of systematic job evaluation to employees.

—From an address by Thadene Hayworth at the 18th Pacific Coast Management Conference of the California Personnel Management Association

Company Information Is Easy to Take This Way

"KNOW Your Company," says the back cover of *Better Living*, employee magazine published by E. I. du Pont de Nemours. Then follow eight photographs with questions in the best quiz style. For instance, in the January-February, 1948, issue, one picture shows a young man at a machine. Caption reads: "Arthur Bennett, cord twist operator on 'Cordura' rayon yarn at Spruance Works, is working in one of the more than . . . new types of jobs created in du Pont since 1927. (a) 300; (b) 500; (c) 50; (d) 100." Answers are printed, upside down, in the lower right-hand corner of the page. In many instances, they carry an additional message. For instance, the answer to the question in the example cited here is "(b) More than 500 new types of jobs, representing nearly 30,000 people."

Thus, in one of the most easily assimilated forms, information about the company, its policies, and its products, is presented to workers throughout the plants.

—Factory Management and Maintenance 5/48

PRODUCTION MANAGEMENT...

Work Factor Analysis Takes Stopwatches Out of Time Study

USUALLY you can tell a time study man by his stopwatch. This no longer is true in the Chicago radio plant of Motorola. Stopwatches have been outlawed here, and in their place engineers make use of a method known as "work factor analysis."

This modern method of determining standard times for production operations and for estimating new jobs is paying off with handsome dividends. Less time is required to determine elemental operation times. More accuracy and consistency is being realized. Errors in establishing time values have been practically eliminated.

Management made the decision to outlaw the use of stopwatches by standards engineers only after careful consideration. This was an important decision to make, because if anything went wrong it could throw off the entire cost structure and efficiency determination of the plant.

The first step was to call in an impartial group to check the standards then in force throughout the plant. The purpose was to give a "bench mark" with which the existing standards could be compared. A thorough examination of the work factors standards and the manner in which they were established showed their remarkable accuracy and consistency. Some of the old standards were found to be "loose," others "tight."

It is almost impossible, save for the most rigidly trained and controlled groups of engineers, to maintain any reasonable degree of accuracy between different time study men. Even well-trained groups of engineers of different corporations in the same industry will be using different speed-rating bench marks.

These inconsistencies are impossible with this new method of analysis, it is indicated. After additional investigation, management decided to have this outside group train the standards engineers of the company on how to use and apply the new system.

This method of determining standard times, without the use of a stopwatch, is based upon hundreds of detailed stopwatch studies made of *basic* arm, leg, hand, and other body motions. All these analyses were timed and speed-rated from actual production jobs. These findings were then reduced to a one-page "moving-time table," which is the basis for the entire system.

The table gives a time value for any single movement by any member of the body. Adjustments are made on the value determined corresponding to the control and degree thereof required in the movement. These various degrees of control are known as "work factors," and consist of the following: weight or resistance to movement, definite stops required, definite directional controls, cautions or operational dangers, and changes of directions in movement.

Any of three types of analysis may be used in determining a rate without the use of a stopwatch. The type employed is wholly dependent on the work class, and the degree of skill of the engineer or student engineer using it. The

three types are detailed analysis, simplified analysis, and standard analysis.

Detailed analysis. This type of analysis requires a motion-by-motion consideration of everything that must be involved in an operation to perform it properly.

Simplified analysis. This type of analysis is a simplified value determined from a rough-off derivation of the detailed values. Careful examination of the "detailed values" showed definite grouping of the various values. The result is that many elements have been placed in special categories and then compiled in book form for estimating purposes. Now, with a simple estimate of the distance reached and the difficulty of the actual grasp, it is possible to determine quickly the appropriate value from the "simplified tables."

This method can be applied to all types of elements. However, it should be used only by engineers thoroughly familiar with the principles of the detailed analysis. An experienced engineer can establish the elemental values for a long-cycle job and determine the actual rate within 15 or 20 minutes of his first sight of the job. Before, this could have required hours to determine the correct time allowance.

The standard resulting from a "simplified analysis" can be depended upon to stay within 3 to 5 per cent of a "detailed analysis," "work-factor standard data evaluation," or an expert speed-rating time study of the same job.

Standard analysis (from work factor data). Tables of standard data have been compiled from the "detailed analysis" on many common work operations, such as wiring, soldering, and riveting. Standard data on operations of this type are particularly valuable in the radio industry, so they received priority in development of data tables.

The reaction to the installation of this standard system from top management, production supervisors, and workers has been good. With this form of analysis it is possible to allot a precise number of work elements to each worker. Consequently, no operator is "overloaded" or "understood"; this is particularly valuable in establishing balanced work cycles on assembly lines. It is easier for everyone to understand; the result is better cooperation between time study and supervision.

The various tables were compiled by the department with all data and rate information (actually the permanent file study sheet) combined on one form. The various values are then merely circled, added, and converted into the rate to be released for the job. An engineer can actually set a rate on a job in 10 minutes or less by using this pre-rate sheet. Its accuracy, flexibility, and speed also permit it to be used for cost estimating.

By T. C. STEWART. *Factory Management and Maintenance,* May, 1948, p. 126:3.

Illness Absenteeism in Manufacturing Plants

NEARLY two-thirds of all work absences, for which the reasons were known, were ascribed to illness or accidents not related to employment, according to reports received in a survey covering absenteeism in manufacturing during the first and second quarters of 1947. This survey, made jointly by the Social Security Administration, the United States Public Health Service, and the Bureau of Labor Statistics, constitutes a preliminary attempt to determine the extent and causes of work absenteeism under peacetime operating conditions.

About 260 manufacturing plants, with approximately 160,000 workers, partici-

pated in the survey. Three-fourths of these plants and about three-fourths of the reported employment were distributed relatively evenly among five major industrial groups: chemicals and allied products; food; iron and steel and their products; machinery (except electrical); and paper and allied products. The remainder represented a wide variety of other manufacturing categories. The sample therefore included a sufficient range of manufacturing activities to minimize the peculiar influences of any particular industry and may be accepted as reasonably representative of manufacturing generally.

For the entire reporting group, the first- and second-quarter absences, expressed on an annual basis, averaged between 3,300 and 3,400 per 1,000 workers. In other words, if absenteeism continued throughout the year at the same rate as prevailed in the first two quarters, each worker—on the average—would have had about 3.3 or 3.4 absences. The rates for the two quarters were similar, though sufficient differences were apparent to indicate that seasonal influences are important. Absences due to work injuries constituted only a minor part of the total. Most important in both quarters was the absence rate for disability resulting from accidents or sickness not related to employment. Each worker averaged nearly two absences per year for this reason. Seasonal influences probably account for the somewhat lower frequency of such absences in the second quarter than in the first quarter. Similarly, the rise in absences for personal reasons in the second quarter as compared with the first quarter may reflect seasonal influences.

Examination of the experience of the various plants, when grouped by size, revealed the surprising fact that the absence rate increased steadily as the size of the plant increased. The largest plants averaged more than half again as many absences per worker as the smallest.

Only about half the reporting plants were able to break down the days-lost information on the basis of sex of the employees involved. Available data indicate, however, that the rate of absenteeism for women was about half again as high as the rate for men. Whereas the annual time-loss rates for men in the two quarters were, respectively, 9.3 and 8.3 days per worker, the averages for women were 13.1 and 12.5 per worker.

Paralleling the direct relationship between plant size and the number of absences per worker, the amount of time lost per employee also appeared to be influenced by the size of the reporting establishment. The average rate of time loss per worker varied from 4.9 days per year in plants with less than 50 employees to 9.7 days in plants with 500 to 999 employees, but dropped slightly to 9.0 days for the largest plants with 1,000 or more employees.

Approximately half the illness absences, for which the duration was reported, were terminated after only one day, and fully three-fourths of the total were terminated in less than four days.

—MAX D. KOSSORIS in *Monthly Labor Review* 3/48

Scrap Drive Speeded

THE AMERICAN Forge Division of American Brake Shoe Company is accelerating a scrap drive in all its forge plants.

A folder issued to employees is titled, *How Amforge Found $8,000*. Then the question is asked, "How much can you find?" Pictures of various scrap piles show the value of certain metal that might be considered useless. One scrap pile is valued at $537, another at $1,700.

It is explained that scrap is now being sold at more than $60 a ton, while before the war the price was from $14 to $17 a ton. The price is high because of the scarcity, and the scarcity is due to the great amount of war materials shipped overseas. This scrap from the war materials left overseas amounted to a normal three-year scrap supply in this country.

Department heads at American Forge plants were recently asked if they had any scrap other than their regular scrap accumulation. A concerted drive was organized and approximately 200 tons of scrap, valued at $8,000, were found.

In order that workers have some idea of what to look for, a list is given of scrap metals that can be used. This scrap includes old wheels and gears, obsolete dies, odd pieces of rail, worn out shovels and wheelbarrows, and worn out hand tools.

—*American Business* 5/48

War on Waste

INDUSTRY is launching a big-scale offensive against waste, a long-time enemy.

Waste and inefficiency have had a field day in the lush postwar sellers' market. But now many companies find profit margins thinning. Others know they can expect a like thinning when present high volume dips. And the resultant scramble to "save" manufacturing ingredients, ranging from man-hours to metal, is becoming epidemic.

Companies big and small are enlisting the aid of employees in their anti-waste campaigns, a *Wall Street Journal* nation-wide survey finds. Goodrich Tire and Rubber Company conducted an employee participation drive which spotlighted a suggestion contest with prizes ranging from television sets and frozen food cabinets to shotguns and fishing tackle, and cash prizes ranging up to $1,500.

The don't-waste-anything impulse is manifested at Kaiser-Frazer's Willow Run auto plant in a "salvage store." Here company employees buy damaged products at a saving to both the company and themselves. For example, instead of throwing out damaged carpet strips, 11 by 50 inches, Kaiser-Frazer sells them for five cents each to its personnel. Wives of workers use them on stairs or sew them together as scatter rugs.

Appealing to the pocketbook sense of profit-sharing workers is the slant adopted by Packard-Bell Company, a Los Angeles radio manufacturer. One of its successful stunts is setting up a pile of broken and damaged parts over which there's a sign telling employees: "This is part of your 1948 profits." Officials figure the scheme has cut waste losses by 10 per cent.

One weapon in the war on waste is new labor-saving machinery. Hershey Chocolate Co., for instance, has switched over to new streamlined machinery in assembly-line production, cutting down manual labor from eight attendants on one old-fashioned manual machine to three on the new units. The percentage of broken and defective candy bars has been slashed from 8 per cent of total output under the old method to slightly less than 2 per cent under the new setup.

New ways of handling materials highlight the drive to reduce wasted time. SKF Industries, Philadelphia, has devised a new packaging system for ball wire used in making steel balls which reduces unloading time at rail sidings from 90 hours to 15 hours per carload. Heretofore ball wire was shipped to the company in single rolls weighing 300 to 400 pounds. SKF has developed a method of bundling the rolls in batches of five, and by using a fork lift truck personnel can handle two bundles at once.

The discovery of new uses for waste products is a continuous process. Westinghouse Electric's appliance division plant at Mansfield, Ohio, saves the company $800,000 annually by turning the old into the new. Everything from steel scrap to used shipping tags are reclaimed and utilized. Sheet metal scraps are cut into usable shapes or punchings and used in electrical home appliances. Lumber from incoming crates is recut to box appliances leaving the plant. Paint from spray booths is salvaged and reworked into new paint. Some of Westinghouse's annual salvage harvest results: 37,725 gallons of solvents, oils, and thinners reclaimed and reprocessed; 60,000 gallons of paints recovered; 5,000,000 pounds of sheet metal scraps reclaimed for other uses; 150,000 feet of lumber saved; $29,000

in paper savings through baling and reuse.

Railroads are in the cut-waste parade, too. Last month the carriers observed "Perfect Shipping Month" when a series of employee rallies were held to whip up enthusiasm for cutting the $120 million a year in loss and damage to goods in transit.

Glidden Co., Cleveland, has a different approach to the waste problem. It claims that factory operations in most companies are closely watched but that not enough attention has been paid to office efficiency. As a result, the company has begun a program of examining all office operations to eliminate unnecessary work, reports, and records. The plan also aims to eliminate or reduce expensive overtime, supplies, statements, and communication expenses (telephones and letters). The big thing about the program, the company states, is that it has made everyone cost-conscious—from the top down.

Employee contributions to the war on waste sometimes have striking results. Recently, the plant photographer at the Aluminum Co. of America's Lafayette, Ind., factory noticed that a brand-name solvent used for cleaning typewriters smelled like tetrachloride. Alcoa uses that liquid in great quantity for other purposes. The lab confirmed the photographer's suspicions as to the cleaning fluid's composition. Now the company cleans its typewriters with tetrachloride from its own warehouse drums and saves 93 per cent of the former cost.

Johns-Manville says its approach to the "war on waste" is to make sure there is no waste to dispose of. In other words, stop waste-making processes before the waste occurs. Accordingly, J-M created a special quality control department back in the 1930's to apply all known statistical methods to the control of operations. Specially trained experts attack the waste problem in two ways: Watching raw material specifications and checking process control. The system, according to the management, has paid off a hundredfold. One example offered: The cutting of waste in making packing material from 8 per cent to 1 per cent of total production over a period of years.

The Wall Street Journal, June 2, 1948, p. 1:2.

New Developments in Wooden Boxes and Pallets

RESEARCH in the wooden container industry has been stepped up rapidly within the last seven years. One result is the development of new containers of wood which it is believed will play an important part in America's shipping habits.

Wartime chemical research developed a number of excellent inorganic adhesives which are highly resistant to moisture. Introduction of these adhesives into the manufacture of lock-corner wooden boxes has greatly extended the uses of this versatile container. Lock-corner construction permits of great savings in the footage of lumber employed in a wooden box, and thus affords the shipper not only a lightweight protective container but also a more economical shipping medium.

Probably the greatest single achievement in recent years in the wooden container industry was the discovery of a method of making a unit box end without cleats, which affords edgegrain nailing around the four edges of the end. These built-up unit ends were originally developed as a means of salvaging block waste in woodworking plants, and not as a means of increasing the strength of the container. Since these end constructions employ waste lumber and have been proved stronger than one-piece box end construction, they are a very economical

form of box construction. It must be pointed out, however, that to date this type of end construction is only employed for fruit and vegetable containers, and has not been adapted as yet to use on industrial containers.

Another development of interest in the field of wooden packages is the increased use of plastic or chemical treatments for reusable or returnable wooden boxes and crates. Included in this category are such containers as beer and soft drink cases, milk bottle crates and field picking trays and crates, which are employed for harvesting purposes. These chemical treatments vary considerably as to formula and usage. They cover a field which ranges from ability to repel moisture to the power of resisting rot, decay, mildew, stain, and fungus, as well as to control the dimensional changes of the wood itself, such as warp, wane, and checking.

New developments in wooden pallets have been rapid since the start of World War II. Undoubtedly the most important development brought about by the war was the four-way entry pallet, which permits of the entry of forks or the lifting device from any one of the four sides of the pallet. Some manufacturers have gone even further and designed pallets which permit of eight-way entry. This type of construction allows the lifting device to operate efficiently in places where space is at a premium.

—William H. Sardo, Jr., in *Shipping Management* 1/48

Prevalence of Incentive Plans

ABOUT 30 per cent of the plant workers in manufacturing industries studied by the U. S. Department of Labor in 1945 and 1946 were paid on an incentive basis, reports the Bureau of Labor Statistics.* Comparison with previous studies indicates that there has been little change in the extent of incentive payment in recent years.

Among the major industry groups studied in 1945 and 1946, incentive methods were most widespread in the manufacture of apparel. In this industry a relatively high proportion of time is spent in handling as contrasted with machine operation. Consequently, control over output is exercised predominantly by the worker rather than the machine. This factor, together with the comparatively small danger of spoilage in most operations, makes the use of incentive payments highly advantageous.

Incentive systems were least common in industries such as industrial chemicals and tool and die jobbing shops. In the former, the speed of production is set to a large degree by the requirements of the manufacturing process and cannot be controlled by the worker; and in the latter, output is on a unit rather than a mass-production basis and a high degree of precision is emphasized.

Among the manufacturing industries, piece rate plans, nearly all based on individual output, predominated. Such plans were reported by five-sixths of the plants with incentive systems. In the apparel and textile industries, 19 out of 20 incentive plans provided for individual piece rates. In contrast, nearly half of the comparatively small number of incentive plans in the chemical industry group provided group bonus payments for above-standard production, since frequently the output of individual workers cannot be readily identified or measured.

* "Incentive Pay in American Industry: 1945-46," by J. M. Sherman. *Monthly Labor Review*, November, 1947.

• A CONTROLS COMPANY in Los Angeles recently faced a 20-cents-an-hour demand from the union, but countered that production did not warrant the increase and stood pat. A compromise was worked out that gave workers a one-cent-an-hour increase on their present base for each 1.2 per cent improvement in production above 105 per cent of the firm's August, 1947, volume. Both sides see advantages in the plan.

—*Industrial Relations Letter* (California Personnel Management Association)

MARKETING MANAGEMENT...

How Big Is Your Negro Market?

WEARIER than a UN conferee on Palestine is the notion that American Negroes are a fringe group market-wise, and hardly worth any concentrated selling effort.

When should anyone sneeze at an estimated $8 to $10 billion in buying power? Many companies, far from indifferent to the Negro market, are going after its sales through concentrated advertising in the Negro press, community-relations work with Negroes, and by hiring top-notch Negro salesmen for colored areas.

More than the income of Canada, the war-raised earnings of over 14 million Negroes also top our highly-touted export business excluding Lend-Lease and government loans. Negroes today are concentrated in industrialized urban centers. According to a recent Department of Commerce population report, there was a 50 per cent increase in non-white households in areas outside the south between 1940 and 1947. This reflects the Negro migration to higher-paying jobs in Northern cities.

Illiteracy among Negroes has dropped sharply; some 78,000 colored students are now enrolled in colleges. Negroes operated farms valued at $1.2 billion; and some 32.7 per cent own their own homes. The Department of Commerce reports that in 1945 33.5 per cent of the non-white urban population earned between $2,000 and $5,000 a year.

Negroes are the highest per capita purchasers of drugs, cosmetics, and toiletries in the country. They are in the market for farm equipment, electrical appliances, construction materials. Thriving Negro banking and insurance companies are buyers of office equipment, cars, trucks, etc.

While traditionally the last hired and first fired in marginal jobs, the Negro has in the last few years gained a foothold in skilled crafts heretofore barred to him, and has a better chance than ever to retain his gains in earning power.

Burdened by years of sales snubbing and trickery, Negroes are anxious to buy high-quality goods and are brand-conscious.

That's where the Negro press enters the picture by publicizing who wants to sell to the colored market. While most Negroes read general media, they also support the colored press, which gives more adequate coverage to their social news and special problems. Most of the 137 Negro newspapers in America are weeklies, with an estimated circulation of 1,809,000. Of these, 24 are ABC (Audit Bureau of Circulation), with a circulation of 1,121,000. *Ebony* and *Our World,* two monthly magazines patterned after *Life* and *Look,* have circulations of 350,000 (ABC) and 180,000 (ABC), respectively.

The Negro press has had a tough battle in the past—accounting for somewhat flamboyant methods, both editorial and advertising. Their preoccupation with race problems has made for sensationalism; and their shaky finances led many of them to accept highly suspicious mail-order ads. Some respectable advertisers have been leery of appearing side by side with magic-charm copy. But the improved financial situation is giving rise to more orthodox practices.

Advertisers in the Negro press include Beech-Nut, Vick Chemical, Procter & Gamble, Liggett & Myers, Johnson & Johnson, Pennsylvania Railroad, Seagram, Schenley, Continental Oil, and Lever Brothers.

As early advertisers in the Negro press who inadvertently pulled some boners discovered, it's best to angle copy and illustrations to the market. Many ads today have Negro models—there's a Negro model agency in New York—and often carry endorsements from prominent Negroes. One company that is planning a series of ads for the Negro press is breaking away from this pattern of celebrities and getting endorsements from successful but little-known Negroes in fields like chemistry, medicine, business, banking.

Here are some specific "don'ts" for advertisers in the Negro press (actually these cautions can be extended to advertisers generally):

1. Don't exaggerate Negro characters with flat noses, thick lips, etc.
2. Don't portray the Negro as a dull-witted domestic. Negroes resent radio characters presented this way, and boycott products advertised by them. They approve of "Rochester" and Duffy's Tavern's "Eddie," as intelligent individuals.
3. Avoid incorrect grammar and dialect.
4. Don't lampoon Negro children or call them pickaninnies.

These common-sense admonitions for good taste are rarely violated today, though some conspicuous exceptions have meant years of explaining for some companies.

There are, however, more common, subtler ways in which the Negro community is unintentionally snubbed by companies. For instance, a soft-drink manufacturer gave a carnival in a city park from which Negroes were excluded. Many contests preclude Negro entrants by the nature of their prizes—like free trips to exclusive resorts.

Negroes, generally, have a "don't spend where you're not employed" attitude. They are particularly gratified to be sold by one of their own kind, which accounts for the rising popularity of Negro salespeople among more companies.

Pioneer in the field is Esso Standard Oil Co., which for over 10 years has employed a Negro, James A. (Billboard) Jackson, as good-will man for the company in the colored community. He has traveled the country speaking before dozens of fraternal and social organizations for so long that to thousands of Negroes—among whom he distributes little souvenirs like key-cases and mirrors—he is known as "the Esso man." Jackson has also facilitated creation of dozens of Negro-owned Esso gas stations which do land-office business in colored communities.

Lever Brothers has Negro salesmen covering Harlem merchants in New York. Old Gold has two Negro girls doing promotion work in Chicago; Pabst, Schenley, and nearly all the national liquor, wine, and beer outfits have Negro sales and sales-promotion personnel doing direct or tie-in selling through such groups as Negro bartenders. International Business Machines and Remington Rand have special Negro sales representatives.

Hand-picking of superior men to pioneer Negro employment is stressed by most Negro leaders. Julius Thomas, director of industrial relations of the Urban League, national Negro social-work agency, points out that employers should select exceptionally well-qualified personnel for their first try.

Negroes are in a position to influence their employers on buying decisions. In the role of domestic, for instance, Negroes purchase many luxury items for employers. In fact, these buying habits are carried over into their own

purchases. Many companies are surprised at the high percentage of Negroes who buy "class" merchandise.

Of course, in selling high-priced merchandise, the manufacturer has no control over the fact that some retail stores will not sell to Negroes. Here many companies are doing an educational job for their outlets. By looking realistically at charge accounts and sales, many stores are lifting old taboos which kept Negro customers from their counters. As some point out, if you convince a retailer that his sales will boom, he'll come around more rapidly than most people think.

Modern Industry, April 15, 1948, p. 95:4.

Should Dealers Share Costs of Promotional Literature?

DO you provide your dealers with catalogs, advertising literature, and promotional material free of charge? If so, you are following the majority practice, according to the more than 350 companies that replied to *Industrial Marketing's* recent survey of 1,000 representative manufacturers. However, some companies *are* breaking with the tradition of supplying sales helps at no charge.

Of the respondents to the questionnaire, 26 companies (7½ per cent) reported that they have made a charge for catalogs provided to dealers. Ten of these said the charge was 50 per cent of the total cost, while the remainder indicated charges varying from 25 per cent to 100 per cent. Sixty companies said they have charged for advertising literature and promotional material, and 52 per cent said this cost has been shared with dealers. The practice of making a charge for catalogs is confined to those industries where the cost-of-product is comparatively low—manufacturers of office, industrial and household equipment and supplies, packaging and display materials, pneumatic equipment, and wire recorder companies.

Reduction of waste and more efficient use and distribution of sales helps are advanced as the chief reasons for charging for catalogs. Many companies said they would like to charge for sales helps, but the majority refrain from doing so for three reasons—competition within the industry, established practice, and the belief that waste distribution is a negligible factor.

—JOSEPH P. ALLISON in *Industrial Marketing* 5/48

Bringing Back Lost Customers

A CONTINUING campaign for the recovery of lost customers can work wonders for you!

It is not too difficult a job. Ask your accounting department to get out the ledgers and make a list of all the customers the company has lost since the war started. Opposite each name, put down the reason for the loss; then summarize the most frequent reasons—and you have the basis for a campaign.

Write a series of three or four short, pointed sales solicitation letters to use as a direct-mail campaign. Bring out strongly the fact that conditions leading to the original loss have been corrected; and explain the advantages that customers now have in coming back to their original supplier. Tell them what you can do for them today, and how much happier you can make them tomorrow.

If you prefer to have the salesmen make the calls, write out a simple, personal questionnaire for each to use. Split up the list among the salesmen in the different territories, with specific detailed instructions for a special series of good-will calls. Follow through to be sure the calls are made.

—HARRY SIMMONS in *Printers' Ink* 6/25/48

Today's Farm Market

With all their early and honest postwar planning for increased production facilities, American manufacturers apparently have paid little attention to the American farm market as a field in which to seek more customers for consumer goods.

Many manufacturers whose next logical field for more consumer business is the American farm market are turned back from investigating its possibilities by mental "road blocks." Some of these are considered in the following paragraphs:

1. *For the farm market, I would have to set up an entirely different system of distribution.*

Selling to the farm market doesn't require radically different distribution channels but rather different promotional activity to reach farm customers, and an extension to rural and small town dealers of the same merchandising aids that are now used in cities. Entering the farm market requires careful study of territory and of the distributive channels for a particular kind of product. The problem is complicated nowadays by reason of retail shifts taking place. Many small town independent retailers have lost ground to fast-spreading chains and mail order houses; the latter now do most of their business through their own retail stores. Still, only a few independents have been driven out of business. Their farm customers are loyal to them—an important factor in measuring the size and stability of the farm market. Many have lost business but are fighting back successfully, adopting improved merchandising methods, improving their stores in appearance, lighting, layout.

2. *Not enough farmers have electricity, gas. My products need technical servicing. How could I reach customers living on scattered farms?*

This is an excellent objection to investigating the farm market, and until a manufacturer has the answers for his particular products, it would be best for him to stay out of that market. The reason: When anything on the farm goes wrong, it must be repaired immediately. The farmer cannot wait for the factory to send parts to him. His local merchant must have them in stock, must get prompt replacements from the factory, and must have the technical ability either to go to the farmer and make repairs or to tell his farm customer over the telephone how to make the repairs himself.

3. *Admitting what you have said so far, the farm market is too scattered for my business.*

Depending on where it is sought, the farm market is both thin and evasive, and at the same time highly concentrated. It is concentrated in the sense that 10 per cent of the nation's farms produce 50 per cent of the entire farm output—and the top half of all farms account for 90 per cent of the whole output. This concentration of output makes it possible to reach various economic income groups in farm territory without too great an expense. Geographically, however, the customers may be scattered. True, there are concentrated farm areas with large incomes in California, Iowa, and other states, but these are the exceptions, not the rule.

The farm market can be tailored to fit the product. Once the market has been located, then the manufacturer can plan his local advertising and dealer aids with certainty. He can be sure he is on a good target.

The farmer is a studious and appreciative reader of advertising that interests him for his home and for his farm plant. He is a careful reader, used to checking facts about farm equipment, feeds, fertilizers, and other purchases that must be decided on facts. He is a customer with much of the viewpoint of the professional purchasing agent, even for the merchandise he and his wife are today considering for the home.

Advertising copy and illustrations must be checked for accuracy and completeness. They must be technically accurate for farmers. Today's farmer is often a college graduate, operates on a business basis, uses adding machine as well as typewriter. He should be talked up to, not down to. Advertising should be directed to the farmer's wife, too. She is influential and advanced in her outlook and buying habits. The city woman has practically no advantages over her.

Careful consideration should be given to budgeting the advertising dollar earmarked for the farm market and to scheduling the advertising. High readership and moderate media rates make it possible to attain results at moderate cost—but also to waste money and produce poor results.

Media selection is important. The farmer is on close terms with his local dealers, and an attentive reader of his farm papers and local weekly newspapers. Some of the state periodicals may lack glamor in contrast to national periodicals, but they penetrate, while it cannot be assumed that even the national farm publications do as good a local job in coverage.

Radio coverage is even more of a problem. Very little has as yet been determined about farmer listening habits, a grave shortcoming in planning for the farm market.

Outdoor advertising is in many farm communities a distinctly effective and economical medium, according to local coverage and rates.

4. *I admit that the farmer is prosperous today—but how about falling farm prices, and the next farm slump?*

There is substantial evidence that the farm market has become more stable than it was in the past, because it conforms to the different national economy now in the making. Every year there are fewer farms, and this trend is likely to continue for some time. But with mechanization and other improvements in farming practices, the income *per farm* has been going up even more rapidly than total farm income.

From 1940 to 1947 farmers' financial assets rose from $5 billion to $22 billion, and physical assets (land, buildings, equipment, crops, livestock) from $48.8 billion to $88.7 billion.

The farmer is buying new machinery to such an extent that alarm has been expressed: Is he over-buying? *Banking,* journal of the American Bankers' Association, recently said that he could be buying more:

> Farm machinery is cheap compared with the cost of farm labor. Machinery prices are 40 per cent higher than in 1935-39, but farm wages are 240 per cent higher. There is far greater danger of farms not having enough labor-saving machinery than too much.

Two characteristics of the farm market should be kept in mind:

1. High teen-age potential. The farmer's children today want all the merchandise that appeal to American youth everywhere. In 1948 close to two million farm boys and girls will be enrolled in some 75,000 4-H Clubs, exerting a strong influence on rural economic thinking.

2. A stable new market for medi-

um-price luxury products. High food prices benefit the farmer. Raising a large part of his own food, that budget item is lower than for the city family, but true only in connection with fresh meats, vegetables, and fruits. On *processed* foods his market basket is huge.

Greater national non-farm population, and the continuing drift to cities, assures demand for farm products, regardless of exports—increased union growth, unemployment insurance, steady national income, and demand for farm produce. High national income has encouraged better eating habits which would be difficult to throw off. Electrification of farms within the next five years also opens a wide market for a complete line of electrical products.

Altogether, the American farmer is better off today than ever before—in income, savings, and future possibilities. It is unlikely that sales to this market will ever again sink to depression levels. The Government parity program assures steady farm income until the end of this year; after that, other factors will support that income and the farm market.

Sales Management, April 1, 1948, p. 96:8.

Look at Your Expense Accounts

THE CRITICAL need for economy, growing more acute as production costs rise, is bringing closer scrutiny to that necessary evil of sales—the expense account. Salesmen are hearing the cry: "Hold expenses down!" But how can a business firm really accomplish this?

Business men themselves should begin telling their representatives *how much to spend* for different items. They should issue understandable regulations. These are best printed on the backs of expense account forms. Thus the salesman can't come back with I-forgot-you-said-not-to-pay-more-than-four-bucks-for-a-room.

Management should maintain reasonable flexibility in the system. Patently, it might be ruinous to restrict a salesman to a $3 room to which he might invite someone for transaction of a $50,000 order. Or to tell this salesman he couldn't buy the prospect $30 worth of entertainment. Or $50 worth, if the No. 1 prospect was in an expansive mood. Discretion can't be eliminated entirely.

Authorities in the field say companies should spread word that expense accounts are being watched, and should indicate that there will be no more toleration of such practices as these:

1. Claiming mileage in excess of distances a standard road map shows.
2. Failing to use cheaper round-trip fares.
3. Charging for meals beyond the scheduled maximum.
4. Claiming taxi expense while off in the company car.
5. Lumping unidentified "expenses" under "incidentals."
6. Purchasing Pullman berths and hotel rooms for the same night.
7. Entertaining people with vague names who seem unrelated to the sales prospect.
8. Claiming reimbursement for "phone calls" that are only hazily remembered.
9. Claiming big "tips" and "porter service" when the salesman is known to have carried little more than a briefcase.

—Kiplinger Magazine 3/48

• ACCORDING TO A NATIONAL POLL by Opinion Research Corporation, 69 per cent of all workers favor the provision of the Taft-Hartley Act sanctioning freedom of speech by employers as well as union officials.

Does It Pay to Repeat an Ad?

HOW many times can you effectively repeat an advertisement? Stated another way, the question is: "Why can't we prepare fewer and better advertisements and publish each one more times?"

You *can* save money without reducing your advertising schedules—just repeat that advertisement and you'll get more readers, 2,865 interviews with the men who buy reveal.

These interviews did not attempt to measure the sales effectiveness of one advertisement against another nor the effectiveness of one publication over another. The study had the following two objectives:

1. To compare relative observation and readership of repeated advertisements with the original insertion. (Observation means recalling having seen a given advertisement.)
2. To determine relative observation and readership of repeated advertisements after various time intervals. (Readership means reading one-half or more of the main text of a given advertisement.)

Facts are now available to replace opinion on this much-debated question. The facts have been gathered and issued by a committee representing 300 industrial advertisers, publishers and agencies.

The committee reached these conclusions on the value of repeating advertisements:

1. A given advertisement secures attention from a random sample of those who read the publication in which it appears.

2. When an advertisement is repeated, it is seen and read by at least an equal number of new readers or readers who do not recall seeing it before. This holds true regardless of frequency of insertion in either a weekly or monthly publication. As the time interval between repeated advertisements increases, the recollection of previous appearancs decreases to the extent that:

3. In a weekly publication, advertisements repeated at four-week, or longer, intervals have little accumulated recollections of previous appearances and have approximately the same effect as the original insertion.

4. In a monthly publication, advertisements repeated at four- or five-month intervals have little or no accumulated recollection of previous appearances and have approximately the same effect as the original insertion.

—*Sales Management* 7/15/47

Expenses of Operating Salesmen's Cars in 1947

A TOTAL in excess of 2,260,000 miles of automobile transportation in salesmen-owned cars cost 6.7 cents a mile in 1947, and costs this year are running 'substantially higher.'

Because of the number of inquiries recently received from firms that wish to make a fair adjustment on automobile allowances, Dartnell Sales Service has checked the experience of O. E. Blankenbaker, who maintains detailed cost records on the fleet of more than 200 salesman-owned cars for the Pet Milk Sales Corporation.

Pet Milk's setup is based on, and adjusted to changes in, individual cost variations within each territory. The salesman receives paid-up insurance; a monthly depreciation allowance which averaged $31 in 1947; a monthly sum (averaging $12.50 a month) for such charges as parking and tolls; and an allowance per mile, figured at local price rates on a basis of 15 miles to a gallon of gas and six quarts of oil per 1,000 miles.

Broken down on this basis, cost-per-mile figures in 1947 were:

Insurance	$.0089
Depreciation	.0256
Monthly allowance	.0090
Mileage	.0235

It should also be noted that Pet Milk's men drive, in a great majority of cases, over 15,000 miles a year. Per-mile allowances would require upward adjustment from these figures for short-haul driving. In addition, constantly rising costs will result in even higher figures this year unless something unforeseen turns up, according to Mr. Blankenbaker.

Readers may be interested in checking their cost figures and their present allowances against the figures shown here.

—*Dartnell Sales Service, Chicago*

FINANCIAL MANAGEMENT...

Inflation and Private Price Policy

THE present price situation contains many surprises which would bowl over a modern Rip Van Winkle who dozed off in 1928. Some of the most astounding are these:

1. That inflation should have been permitted to continue so long and go so far, when recent experiences have made all aware of its perils and when advances in economic and political know-how have provided us ample means to control it.

2. That our government, with the apparent backing of business and the public, should bet all our money on one willing little nag named "Pricing Restraint," which has never yet won a race against inflation, regardless of Presidential exhortation.

3. That after seven years of inflation the level of commodity prices should, in 1948, be so low, in view of the power of the inflationary forces (i.e., the levels of aggregate demand, money supply, velocity and interest rates) and in view of the few frail inflation controls we are employing.

4. That widespread gray markets, with prices ranging up to 300 per cent of official prices, should persist three years after the end of hostilities.

5. The pronounced disparity between the large price advances in strictly competitive markets and the relatively temperate price increases of commodities in monopoloid markets.

6. The low level of the price of loan money and the continuation of a pronounced aversion for debt in the light of the inflationary experience and outlook.

7. The low level of common stock prices.

The explanation of these anomalies is too long to be detailed in this discussion. But here are a few neglected factors that account for some aspects of this strange price situation:

We have persistently underrated the vast power of the inflationary forces that are operating in our economy, just as we underestimated the deflationary pressures in the great depression. How to have over-full employment without inflation is perhaps the most important economic problem of our generation. We have had too much faith in the magic self-balancing power of a capitalistic economic system to right itself automatically and choke off inflationary pressures by an outpouring of goods.

The competitive structure of many key industries makes the movement of industrial prices sluggish in inflation as well as in depression. Few producers and substantially similar products create a rivalry situation so unstable that major reliance is placed on non-price competition.

Big business has an acutely sensitive public reaction nerve. This nerve is worn raw by many factors, among them the flaming struggle for power with unions, anti-trust worries, and a public suspicion of bigness that has been part of our culture for generations. This condition has bucked up public-spirited pricing restraint.

We have had widespread conviction, almost continuously for the last three years, that a slump was just around the

corner. By leading consumers and producers to prepare repeatedly for a buyers' market, this mirage has acted as a powerful restraint on inflation.

Suggested here for the benefit of companies that have enough pricing latitude to have a real pricing problem are a few pricing guides and the methods of applying them in an inflationary situation.

The sound approach to pricing as to all marketing policy is from the viewpoint of the buyer. Dominant consideration should be buyers' reactions to prices. This is equally true in an inflationary market and in a buyers' market, but the problems shape up differently. A key consideration in pricing should therefore be the buyers' available and known alternatives, in the form of competitive and substitute products. Starting with this benchmark of competitors' price, the problem is to measure, in terms of buyers' benefits and buying actions, the spread (above or below) your product and service superiority will command.

Most companies know little about how their prices (absolutely, and relative to substitutes) affect sales volume. Other factors, notably national income, advertising and product modification, affect sales so importantly that they obscure the influence of price. Moreover, prices of manufactured goods have normally been relatively stable, so that companies have had little experience with a wide range of prices. In industries with substantially uniform products and few producers, significant differences between prices of standard suppliers cannot persist. Consequently, only the price leaders normally need worry much about elasticity of industry demand. In many industries there is widespread conviction that industry demand is inelastic, (i.e., that price doesn't make much difference in sales, so long as it is in line with close competitors). Hence the will to conduct controlled experiments for exploring the effect of price on sales is weak, and the opportunities are few. But more and more experimenting is being done. For example, identical mattresses, bearing Simmon's brand and an unknown brand, were displayed at the same prices and at various price-spreads to determine the effect on sales. With parity prices, the Simmons brand outsold the other 15 to 1; with a five-dollar discount, sales were 8 to 1; and with a 25 per cent discount sales were equal. A parallel experiment with Cannon towels produced similar results. Other firms should start now on research that will lay a sound foundation for more scientific future pricing.

Manufacturers continuously run the danger of pricing themselves out of sectors of the market, and of suffering from purchasing-power squeezes from high prices of conventional "necessities." Thus arises the practical problem of estimating effective demand for the firm's product in an inflationary period, and of guessing demand elasticity.

Market share, which is a pitiless index of buyers' actions, is determined by many factors. Production capacity is a dominant one in the goods-starved present (e.g., Kaiser-Frazer). Product characteristics and marketing skill are also strategic. But price is an important background determinant, particularly when products are dissimilar. And its influence is major in the larger aspect of share of the vast substitute market.

Market share is a pricing guide of considerable significance during inflations, when distortions of the price system may offer unusual opportunities, and when long-run considerations should overshadow transitory profit maximization. A company's pricing might be measured against this stand-

ard: Does it forward our program of coming out of this inflation with an expanded share of our industry and of our substitute market?

Economic profits, rather than accounting profits, are the relevant guide. Accounting profits overstate real economic profits today, because of failure to charge depreciation on a replacement cost basis, and failure to reflect replacement value of inventory. This exaggeration is unfortunate in view of the impact of profit upon the climate of opinion; for it is these high apparent profits rather than the lower real economic profits that affect opinion.

To estimate a company's economic profits, two simple adjustments are needed: (1) refigure depreciation and depletion on the basis of current (or prospective) replacement value; (2) adjust inventory accounting to a last-in-first-out basis (by contingency reserves that accomplish this).

A useful long-run profits goal for price determination is earnings rate. Conventional records need economic adjustment for this measurement too. E a r n i n g s (economically adjusted) should be expressed as a percentage of investment that is also adjusted to a replacement value basis.

Another kind of illuminating measurement would be a conversion of money profits into real earnings. Real wages (i.e., money wages corrected for a consumers' price index) is a familiar concept. I propose a parallel concept of real profits. A translation of money profits into terms of purchasing power would be useful for many purposes. Profit goals are partly governed by needs for plant expansion and replacement. About 40 per cent of 1947 capital formation came from profits plow-back. Buying-power adjustments might clarify these private and social standards. The portion of profits that is paid in dividends might be deflated by a consumers' price index and the plow-back portion by an appropriate index of the price of capital goods.

Adjust your costs to current and prospective price levels. In the sector of the economy we are discussing, where the seller has some price jurisdiction, selling prices have been notably sluggish throughout our inflationary period. The stimulus of price advances has come more from the cost side than from the demand side. In many instances, price rises have not exceeded the increases in unit costs and price changes have lagged behind cost changes. Looking into a period in which continued inflation is likely, and in which the possibility of volume reduction of unit fixed costs is small (because capacity operations are already virtually attained), it is vital to know what your economic costs really are.

A philosophy of pricing is today indispensable. An *ad hoc* patchwork of price decisions cannot successfully meet a continuously changing situation. You should formulate a pricing strategy in terms of your long-range objectives and the efficient ways of attaining them. Surprisingly few companies have really done it. To develop this foundation of philosophy and strategy will require a substantial increase in the share of top management's time put on pricing problems.

Don't place all your bets on individual pricing restraint to stop inflation. Get out and work for a buyers' market. Avoid the agony of peacetime price, production, and rationing controls by using your influence publicly and privately for the kind of fiscal and monetary measures that alone can check this disastrous inflation.

From an address by Joel Dean at the 36th annual meeting of the United States Chamber of Commerce.

What People Want to Know About Your Company

CONTROLLERS and other executives who have been grappling with the question, "What kind of annual report should our company issue?", will obtain new light from an exhaustive study on this subject just completed by the Controllership Foundation.* Whereas most "answers" in the past have been based on methods used by other companies, the Foundation's survey, conducted by Elmo Roper, discloses what it is that people who *receive* annual reports really crave in that direction. In the main, the study shows, they are not getting it today.

The trouble is that several "publics" are involved, rather than just one common-denominator of shareholder-interest: the run-of-the-mine stockholder, who has no accounting knowledge or experience and whose appetite is limited to essential facts outlined in simple language; the more sophisticated large investor, who understands accounting terminology and is avid for details and source material; bankers, trust officers, brokers, investment counselors, financial analysts, and the like, to whom the annual report is only one source of many to be consulted in evaluating a company's position and prospects; the company's employees, whether shareholding or not, whose interest centers upon continuity of employment, rather than earnings and statements of condition; labor union officials, both national and local, who also crave specific information of a type not generally given in annual reports.

In order to satisfy the run-of-the-mine stockholders who crave simple, easy-to-read information, and at the same time not to deprive the more sophisticated investors of the accounting facts and figures they prize, it is recommended that the present practice of sending all stockholders the same type of annual report be reconsidered. For at least half of the stockholders, and possibly 75 per cent of them, the survey report advises, it might be more effective public relations technique to send them annually or semi-annually a one-page statement signed by the president saying something like this:

> We made X dollars per share last year, as compared with Y dollars the year before. We paid you Z dollars in dividends as against R dollars last year. The present prospects are that we will not do quite so well next year, but we think your dividend is probably safe if nothing unforeseen happens.
>
> As companies in this field go, we are in a fairly strong financial position. We have no large outstanding debt, but we do not have the reserves to weather a good-sized recession without going into debt to do so. Our financial position has been improving the last two years, however, and two more years of good business should put us in A-1 financial condition.
>
> We will be glad to try to answer any specific questions about any phase of the business, if you will write us. We publish a complete financial report for banks, insurance companies, and some of our larger investors. We will be glad to send you one if you will fill out the enclosed postal. But we do not wish to burden you with this document unless you want it.

Along with such a letter would go a condensed income and surplus statement and a balance sheet, in order to comply with stock exchange regulations. A second document advocated as a result of the survey would be something in the nature of a company newsletter telling—again in simple narrative prose—what the company is doing that is interesting. This would be frankly a public relations document

* *A Report on What Information People Want About Policies and Financial Conditions of Corporations.* Vols. I and II. The Controllership Foundation, Inc., 1 East 42nd Street, New York 17, N. Y., 1948. $30.00. (The Foundation is publishing a condensation of the Report, to be entitled *What People Want to Know About Your Company,* which will approximate 50 pages and for which there will be a nominal charge.)

designed to do for stockholders what the employees' house organ does for the workforce. It would tell about new products, new personalities, and new problems, and give a running account of the high spots in the corporation's month-to-month history. Perhaps it would be distributed as a dividend envelope stuffer, perhaps as a separately mailed magazine or brochure. A number of corporations are doing things of this sort already, but others still try to cover many of these topics in a rapidly expanding annual report.

With this arrangement, a self-selected public is left for the full-scale annual report, which can be redesigned to meet the needs of such people as financial analysts, bankers, investment counselors, labor leaders, who really want to dig into it.

The financial analyst-banker respondents to the survey made numerous suggestions regarding information which they felt should be included in annual reports. Here, in order of frequency of mention, are some of the things they asked for:

1. Comparative income statement and balance-sheet figures for two to 10 years back.
2. More information on total labor costs, wage rates, wage increases granted, negotiations with the unions.
3. Better and more informative figures on reserves, depreciation reserves and inventories, and explanation of methods used in calculating these items.
4. Total income broken down by source from which derived and use to which put.
5. Quarterly or monthly figures supplementing annual reports.
6. More information which will facilitate an approval of management.
7. Reporting methods standardized within an industry.
8. Additional breakdowns of operating expense and of changes in total income prior to net earnings.
9. Expansion planned and completed, and costs thereof.
10. Information on training programs and personnel practices.
11. Reconciliation of figures reported in the annual report with those used in income tax returns.
12. New products in preparation and their relation to earning prospects.
13. Territory and customers served.

In connection with the study, 1,242 employees in 64 companies in various fields were interviewed, as also were labor union officials in seven cities. Twenty employees were interviewed in each company; and out of every 10, one or two were executives, four white-collar, four factory or other labor. Forty of the union officials hold office on a national scale, while 48 are local union officials and shop stewards.

Three facts stand out as the major findings of the employee study: (1) There is a great deal of ignorance by employees about the financial condition of the companies they work for. (2) There appears to be a lack of interest in acquiring additional information about this and other phases of their company's operations. (3) What interest there is among employees in getting additional facts is concentrated largely on finding out how secure their jobs will be in the near future.

Annual reports at present do not rate high as an important channel of communication between management and worker. This may be due to the fact that most workers never see them. Seventy-one per cent of the factory laborers and 41 per cent of the white-collar employees indicated that their company's annual report never reaches them; 10 per cent and 17 per cent, respectively, say they see but seldom read them. The relatively few who see and read them—40 per cent white-collar, 16 per cent factory—are inclined to think they tell the truth, and have few criticisms to make except that they are hard to understand in places. The brief version of the annual report, with tables expurgated, apparently appeals to employees as well as to stockholders. It promises more comprehensible answers to the few questions both groups

have about company finances and policies.

Union officials asked for information that would enable them to separate out of the total wage bill the executives, supervisors, and employees not eligible for union membership, and also to break it down by separate bargaining units; also, complete cost breakdowns, inventory figures, data on depreciation and reserves, and information on dividends paid stockholders.

In general, and in the long run, the labor leader has an interest in corporation reporting not greatly dissimilar to that of the financial analyst, the report declares, pointing out that some of the union research directors are just as well-informed and able to discuss technicalities of balance sheets and depreciation reserves.

By DANIEL J. HENNESSEY. *The Controller,* July, 1948, p. 338:6.

Cost-of-Living Pension

A COMPANY-financed employee pension plan under which payments will vary to compensate for cost-of-living changes has been introduced by the Keystone Steel and Wire Company, Peoria, Ill. The plan is to revise pension payments every six months, increasing them when the cost-of-living index rises and reducing them when the index falls. For example, an employee having 40 years' service and an average "10 best years" income of $5,000 would receive $115 monthly when the Bureau of Labor Statistics consumer price index was 167. If the index rose to 200, the pension would be increased to $138. If it fell to 100, the monthly check would decline to $69.

—*Commerce* 4/48

Freezing Out the Risk-Takers

"THE investor in stocks has become the stepchild of our economic system; dividends have been decreasing both in proportion to corporate earnings and to cost of living," according to a study by economist Arthur M. Wolkiser, published in the June issue of *Trusts and Estates.*

As contrasted with an average of over 50 per cent of earnings distributed as dividends from 1939 through 1946, and 69 per cent of profits paid out to stockholders in 1929, the 1947 stockholder received 39 per cent. While the dollar amount of dividends has increased, it has fallen far behind the increased cost of living, rising 17 per cent over 1929, while living costs have increased 95 per cent and hourly earnings in industry increased 116 per cent.

With the present wide ownership of stock in American corporations among people of moderate means, the reduction in ratio of dividends to profits, added to the dwindling purchasing power of the dividends, creates increasing hardships and disadvantages, the author remarks, and "these low returns contribute to reversing the trend to democracy in corporate ownership and to freezing out the small stockholder as well as much-needed new investment."

Pointing out that corporation managers have no alternative to plowing back such large earnings, in view of the scarcity of risk capital, if the company is to make necessary improvements, Dr. Wolkiser urges exploration of new avenues of incentives, ". . . through changes in tax laws and a better climate for enterprise . . . and larger distribution of earnings, where possible, so as to permit equity financing rather than indebtedness . . . which could bring a top-heavy capital structure, with corresponding dangers in case of a depression or letdown in volume."

By retention of the major part of earnings in the company, "stockholders are deprived of their right to determine the channels through which re-investment flows into business." The privilege of selling their stock in the market is not an adequate answer, says the author, since "the stock market has probably already discounted the lower 'take-home' through lower quotations, quite apart from the further decline to be expected from such sales."

Business Financing in the Postwar Period

IN the postwar period, business was confronted with huge capital requirements for expansion of plant and equipment facilities to take care of reviving markets and technological advances, and for added working capital in line with increased peacetime activity and the rising price level. The vastness of these capital requirements, amounting to 50 billion dollars for non-financial corporations in 1946 and 1947, inevitably led to growing pressure of demand upon the available sources of funds for business investment—focusing attention for the first time in many years on possible deficiencies in the supply of capital, particularly equity capital.

In 1947, in addition to the substantial capital outlays charged to current account, corporations other than banks and insurance companies expended over 14.5 billion dollars on plant and equipment, close to 7 billion on enlarging their inventories, and added 5 billion to their trade receivables. This aggregate of 26.5 billion dollars—the highest on record—was financed by 10 billion of retained profits, 4.5 billion of depreciation charges, 4 billion of net new capital issues, and 3.5 billion of bank loans (including mortgages), as well as by a billion-dollar increase in trade payables, a 3 billion increase in income tax liabilities and other payables, and a 500-million-dollar reduction in liquid assets. Thus, funds available from current operations—i.e., through retained profits and depreciation charges — were approximately twice as large as those obtained from external sources through securities or bank loans.

Net investment in fixed capital facilities in 1947 was at an unprecedented dollar total, with plant and equipment expenditures exceeding depreciation charges by more than 10 billion dollars. The increase in inventory value, though substantial, was not so high as in the previous year and was attributable in large part to a rise in the prices of the goods held in inventories in addition to a moderate rise in physical volume. The extremely high increase in net trade receivables. i.e., trade receivables less trade payables, amounting to 4 billion dollars, reflected mainly the credit extended by corporations to unincorporated business and consumers and, less important, to the United States Government and to foreign companies.

In comparison with the previous year, there was a rise in capital requirements during 1947, a rise in retained profits, a rise in net security issues, a slight slackening in the rate of increase in bank loans, and a decided tapering off in the rate of reduction of liquid assets. There was not much change in liquid assets in 1947—unlike the 6.5-billion-dollar reduction in cash and government securities, mainly the latter, during the preceding year. Part of this difference between the two years in the trend of liquid assets is explainable in terms of the increase in income-tax liabilities during 1947 as contrasted with the decrease during 1946. A more important reason probably is the disappearance in 1947 of some of the excess liquidity which corporations had in 1946. As business activity and prices rose, there was less leeway for further drawing down of liquid assets.

The substantial increase in security issues in 1947 is of particular interest. Over two-thirds of the amount of net security issues during the past year took the form of bonds. The remainder was distributed between common and preferred stock, with the former much the more important of the two. The volume of net equity issues in 1947, i.e., both common and preferred, was

about the same as in 1946, but there was a much larger rise in bonded indebtedness.

Though interest rates have risen moderately in recent months, they are still low in comparison with previous periods. Corporate bond yields currently average 3.1 per cent as against 7.0 per cent in the early 1920's, 5.2 per cent in 1929, and 3.8 per cent in 1939. Commercial loan rates charged customers by banks in principal cities now average 2.2 per cent as against 2.8 per cent in 1939 and much higher rates in the 1920's. Higher rates, of course, are paid by new and small concerns. It is noteworthy that the average rate paid on the substantial amount of term-loans extended by banks, mostly to large well-established firms, is slightly less than 2 per cent.

The vast increase in liquid assets plus direct government action in maintaining the market for United States bonds have undoubtedly contributed greatly to the present low level of interest rates. Another important reason for this development is the growing institutionalization of savings, with a resultant pressure on banks and insurance companies to find investment outlets. Since, with minor exceptions, these institutions do not buy common stock, there has been a steady growth in the demand for fixed-interest-bearing obligations.

The substantial demand for corporate bonds by life insurance companies is particularly notable. The current flow of funds into new private insurance at a rate of over 3 billion dollars a year is three times the average of the late 1920's.

These factors help to explain not only the low level of bond yields and interest rates but, to some extent at least, the widening spread between the cost of financing in equity securities versus fixed-interest-bearing obligations. Corporate bonds are currently selling at an average yield of slightly more than 3 per cent compared with a dividend yield of well over 5 per cent on common stocks and earnings on common amounting to over 11 per cent of market value. In 1929, in contrast, the interest rate which borrowers had to pay was above the dividend yield and not much different from the rate at which earnings were capitalized in the stock market. In the mid-1920's, the interest rate was approximately equal to the dividend yield and about half the earnings-price ratio.

Analysis of the present financial structure indicates that the current burden of fixed interest charges is less than in previous periods of high business activity. Thus for corporations as a whole it is estimated that the ratio of interest payments to profits before interest and taxes amounts to 8 per cent at present compared with 12 per cent in 1941 and 25 per cent in 1929. The total amount of interest-bearing corporate debt outstanding today is somewhat lower than in 1929, and interest rates are much lower, though profits, prices, and the national income are much higher.

At the end of 1947 the liquid position of corporations was still favorable by prewar standards. Corporate holdings of cash on hand and in banks and United States Government securities amounted to over 35 billion dollars at the end of 1947, contrasted with a prewar high of about half that amount at the end of 1941. The need for liquid assets for working capital purposes increased greatly over this period but probably not so much as the growth in liquid assets.

So far as the capital markets are concerned, there seems to be no special problem in financing in 1948 the large volume of net new issues characterizing 1947—assuming demand for such capital. Insurance companies alone will

probably absorb a major part of such securities. Unless other investment outlets suddenly appear in large quantities, insurance companies and other institutions will have little choice but to channel the public's saving into the capital markets. The volume of new issues in early 1948 continued at the 1947 rate.

It is possible, of course, that corporations may be increasingly reluctant to add to their debt or to pay the price required for raising equity capital, so that in this sense a capital shortage might arise. This, however, seems to be primarily a long-run problem, in part resulting from institutional changes in our economy.

Bank credit may constitute a more significant form of capital shortage in the near future, though even here the indications are far from conclusive. Primarily, of course, it is the willingness and not the ability of banks to extend credit which is in question. The large drain on bank reserves during this quarter as a result of income tax collections, the moderate increase in reserve requirements in central reserve cities, the "moral suasion" of the Federal Reserve authorities, the more restrictive attitude of the supervisory authorities, and the growing concern of bank officials about economic uncertainties may all combine to curtail the extension of new loans.

Bank loans have leveled off in recent weeks whereas they increased moderately in the comparable period of 1947. However, bank loans are used primarily for working capital purposes —and it is precisely in this area that demand for new capital would diminish if prices stabilized. Furthermore, the interest rates on new loans are still very low and have not changed significantly from the end of 1947, though they are moderately higher than a year ago. It is difficult to reconcile the current low rates of interest with any substantial unfilled demands for bank loans by business, unless it is assumed that banks are rationing credit by making it available only to the highest-quality risks.

BY IRWIN FRIEND. *Survey of Current Business,* March, 1948, p. 10:8.

Who Owns Big Business?

CONTRARY to the belief of a majority of the American people—as shown by a recent opinion poll of the Controllership Foundation—the large industrial corporations are not owned by a handful of the ultra-wealthy, nor is their control in the hands of a few individuals.

A study of stockholdings in the 123 largest manufacturing companies, including all those having assets of over one hundred million dollars each, shows that five out of every six shareholders own 100 shares or less. This survey, published in the July issue of *Trusts and Estates,* also indicates that the majority of the larger stockholders are institutions and fiduciaries which in turn represent scores of individuals, as well as many civic, educational, or eleemosynary institutions from which the entire community may benefit.

Three of these corporations are still owned by the founding families; in the 52 others reporting such data, there are only four in which any individual owns as much as 10 per cent of the voting stock. In 24 of these companies, no individual owns as much as 1 per cent of the common stock. Women outnumber male stockholders in the 31 companies which have made this breakdown; there are about 15 women to every 14 men shareholders. Stockholders outnumber employees by 6,126,713 to 4,464,000 for the entire 120 listed corporations.

INSURANCE...

Accident Reduction Through Labor-Management Cooperation

By ERNEST DALE*

LABOR-management cooperation is a means of increasing productivity in a very broad sense. It covers relationships between labor and management which are generally not touched on by collective bargaining. It is advisory in nature, and its conduct is characterized by "good faith" and mutuality of interest.

Labor participation in accident prevention is one of the most important forms of cooperation. For it has considerable potentialities of success. The employee is deeply interested for his own sake,[1] the union can perform a real service to its constituents, the management has considerable economic, social, and legal responsibilities at stake. The area and likelihood of conflict are more limited than on most other subjects of cooperation.

Labor-management cooperation to reduce accidents may be so organized as to stress management's approach to the *employees* (departmental) or to the *union* (plant-wide). In *departmental cooperation,* stress is laid on the relationship of management to *groups of employees,* the foreman working with committees of employees. The employees usually are hourly-rated workers who serve on a rotating basis. Less frequently, labor representation is confined to skilled employees like machinists, electricians, toolmakers, maintenance men, and, in a number of the larger plants, union representatives. Management representatives include usually foremen and superintendents, somewhat less frequently the safety engineer, occasionally the personnel director. In *plant-wide cooperation* the relationship is essentially between (higher) management and the union, the scope of their relationship extending beyond the confines of a section of the company. Management representatives usually include foremen, the personnel director, and the safety engineer, less often the plant manager, superintendent, and the plant nurse. Union representatives include frequently the president of the local, members of the bargaining committees or union stewards. In practically all instances, employees other than union officials participate.

Labor-management cooperation on accident reduction (as well as many other types of cooperation) was recently studied by AMA in a detailed survey of over 200 companies, and many executives, employees, and unions. Some of the major conclusions on accident-reduction cooperation include:

(1) Labor-management cooperation

[1] The management of a large East Coast shipyard issued a questionnaire to all newly hired employees at the start of their orientation course on the first day of employment. The employee was asked to indicate which one of the 10 listed factors pertaining to his job was of most concern to him. Thirty-three per cent of 10,000 employees so questioned over a 12-month period picked safety in preference to good wages, a good boss, and six other factors which are usually considered to be of first-line interest to any job holder. (F. G. Lippert, *Accident Prevention Administration,* McGraw-Hill Book Co., Inc., New York, 1947, p. 42.)

* Excerpts from an address before the 18th Annual Safety Convention of the Greater New York Safety Council (the complete address covers a much wider scope, including discussion of the disadvantages of, and failures in, this type of cooperation).

in this area is more widespread than any other type, yet it is still rare in most industries.

(2) It is long-lived, for almost half the joint meetings reported date back more than five years.

(3) There is considerable evidence that labor-management cooperation has been one of the factors aiding in reduction of accidents. This is based on actual data and statements of companies and unions. A number of the data show a greater reduction of rates after the introduction of cooperation than before. A large majority of companies engaging in cooperation improved their standing in the industry, some of them considerably so.

The following is a case study of successful *departmental* cooperation:

In 1920, shortly after the Colonial Beacon Oil Refinery started operations, a safety committee was formed consisting of foremen, their supervisors, and two department heads. It was headed by the plant superintendent. The committee met monthly and performed routine duties, such as investigating injuries, plant inspections, recommendations for the installation of guards on moving parts and equipment. However, the number of injuries (minor and disabling) continued to run between 600 and 950 a year, from 1921 to 1926—roughly, from one to one-and-a-half injuries per employee per annum.

Resorting to other devices, the committee sponsored a course of instruction in first aid for all employees. It made more frequent inspections, consulted outside safety engineers, held safety contests. Improvement resulted, as the total number of injuries in 1927 and 1928 was half that of 1925 and 1926, and the figure was reduced to less than a quarter in 1929. The number of disabling injuries was also reduced.

Late in 1929, a member of the line production department suggested that the men who did the actual work knew more about the hazards of the job than did anyone else. Their aid should be enlisted to offer advice on the prevention of accidents. He held that the exclusive management approach to safety had been a failure.

After considerable debate and much opposition, a Workmen's Safety Committee was founded in January, 1930, consisting of one employee member from each of the larger maintenance departments and one man from each of the larger processing departments. The employee members serve on a rotating basis. The permanent chairman of the meetings is the safety supervisor, whose function was created at the time the committee was established. The plant superintendent and personnel manager attend occasionally. Duties of the Workmen's Safety Committee include: (1) regular inspection tours; (2) training; (3) thorough investigation of all injuries and all circumstances pertaining to them (recommendations are made to prevent repetition); (4) five-minute group meetings of employees to instruct them in safety.

The Foremen's Safety Committee discusses the suggestions of the Workmen's Safety Committee and adds its own. The safety supervisor, who is chairman of the latter, follows up those suggestions which have been adopted and sees to it that they are installed. The general superintendent usually attends the meetings and makes the final decision in case of difference between the two committees. He also checks up on each individual foreman to find out whether the adopted suggestions have been put into operation. His very presence and the influence he has in promotion and salary increases of the

foremen have been important factors in activating the Foremen's Safety Committee.

The results accomplished in this refinery (about 500 to 700 employees over the period considered) are remarkable: (1) the total annual number of minor and disabling injuries from 1930 to 1946 never exceeded 80 save in 1930—a reduction of approximately 90 per cent. From 1940 to 1947, the total annual number of injuries ranged from 18 to 29, a mere 3 per cent of the average from 1923 to 1927. (2) The number of lost-time injuries (which used to average 84 a year before employee participation) fell to 3½ a year from 1940 to 1946. There were more than 1,000 days without any disabling accident at all. (3) From 1930 to 1946 there were four fatal accidents (one in 1936 and three in 1946); there were 25 fatal accidents from 1921 to 1929. (4) The number of employee safety suggestions (which were first counted in 1930) rose from an annual average of 86 from 1930 to 1937 to 171 from 1938-1946. (5) Employees interviewed on the safety meetings made such comments as: "It was a privilege to serve." "I got myself quite an education on the committee." "Since they consulted us, we've really gone to town on safety." (6) In safety contests, the company received top national honors in the 15th Annual Nationwide Petroleum Industry Safety Contest among Group B, in 1943; and it won first place in safety contests on numerous other occasions.

Of course these results are only partly due to employee participation. "Other things" have not remained equal and the same: (1) There were important changes from 1930 to 1947 in the nature of the work and the degree of work hazards. Equipment has been made "safer" and more "fool-proof." Hauling is done by cranes, no longer by men. Materials withstand pressure better and are less likely to fail. Concrete cutters rather than sledge-hammers are used. (2) The average annual number of employees and hours of work have been reduced by about one-third from 1925-29 to 1942-46. (3) A better-qualified safety engineer was hired in 1930, probably twice as much money spent on accident prevention (much of this used to go for accident compensation), both foremen and employees are better trained in accident prevention. (4) Stricter self-discipline and more widespread use of safety clothing have taken the place of general autocratic discipline that used to be resented by the men before 1930.

One important offsetting factor to these four major items is the fact that many accidents which would be counted today were not counted before 1930. Many men were afraid to disclose their injuries for fear of dismissal or loss of earnings. Some of the injured used to be taken off their present jobs and put on others which they could perform despite their injuries.

Now, for a case study of successful *plant-wide* cooperation:[2]

The Howard Smith Paper Mills, Cornwall, Ontario, which has over 1,000 employees, has been organized since 1937 by two paper unions. The joint union-management safety committee was formed in 1939 as a result of management's realization that the continuing bad accident record showed no signs of improvement. The safety committee was given informational, inspection, and advisory functions, with the possibility of appeal to higher management ranks. The committee was also given the right to judge and classify accidents. Accident rates were reduced

[2] Reported to AMA by A. E. H. Fair, President, Alliance Paper Mills, Ltd., Toronto, and Harry J. Waisglass, Institute of Industrial Relations, University of Toronto.

from an annual average frequency rate of 30.0 from 1926-40 to 13.75 from 1941 to 1945. Among 17 paper mills in Ontario employing 200 workers and over, the average standing of the Cornwall plant was slightly lower than eighth from 1926 to 1945; it was 3rd from 1941 to 1945.

The results are especially interesting in considering the relative effectiveness of foremen's and superintendents' committees (formed in the early thirties) and the union-management committee:

Year	*Frequency Rate*	*Relative Standing*
1939	14.8	8th
1940	20.9	12th
1941	12.6	6th
1942	17.6	2nd
1943	16.5	5th
1944	13.4	1st
1945	9.2	1st
5-year average	13.75	3rd
1946	5.4	1st
1947	4.8	1st

Thus there are numerous advantages to be derived, by both management and labor, from labor-management cooperation to reduce accidents. Briefly, these advantages may be summed up as follows: (1) Accident reduction will be promoted by cooperation because each employee has a deep interest in improving accident prevention. Further, he has close knowledge of the hazards of his job and thus is able to make original suggestions. (2) Group effort is stimulating. (3) Group action may increase the effectiveness of management action. The safety engineer may be changed from an authoritarian to a consultative supervisor. Engineers and maintenance men, often already heavily burdened, may find their workloads reduced. Prompter consideration and action may be taken on employees' suggestions. Possible suspicion of management's motives may be dispelled. (4) The union may gain by showing tangibly that it is doing something for its members, especially if it gets public recognition for its contributions. It may be placed in a less embarrassing position in refusing to take up what it considers to be an unjustified grievance, if it has itself supported or issued warnings to offending members. Also, less time may have to be spent in grievance handling.

Industry's Voluntary Social Security Plans

THE last 10 years have witnessed much discussion of government-administered social security. In contrast, little attention has been paid the increasing amount of such protection being provided by industry on a voluntary basis. To throw more light upon the character, extent, and financial cost of industry's private benefit plans, the Research Council for Economic Security, Chicago, recently conducted a survey to gather statistical facts on voluntary plans in establishments of various size and type. The employers surveyed were divided into four groups engaged in widely divergent activities: companies having over 50 employees, those employing over 500, those having over 5,000, and those having over 50,000 employees.

The survey shows that the average cost of voluntary plans for all 4 size groups is 11.91 per cent (8.95 per cent paid by the company, 2.96 per cent by the employees) and that of the compulsory services 4 per cent, or a total average cost of 15.91 per cent of taxable payroll. Of this over-all cost, the

share borne by the company amounts to 11.91 per cent; that borne by the employee, 4 per cent. If vacation plans,* are excluded, the total cost is 12.62 per cent, of which the cost to the company is 8.62 per cent and to the employee 4 per cent.

By far the highest cost to industry for voluntary services is for pension plans (3.60 per cent) and for paid vacations (3.29 per cent). The reason is that these are the two oldest types of protection; having been developed over many years, they have become established practice in many companies.

On the other hand, lowest cost is shown in the percentages for the health services—namely, surgical benefits (.18 per cent of taxable payroll) and group hospitalization (.34 per cent), group health and accident insurance (.84 per cent). These services are of fairly recent origin, inasmuch as group hospitalization and group health and accident insurance, to say nothing of group prepaid medical care, have been in existence only about since the middle thirties.

It is likely that, left to their own development, these health services will tend to expand considerably. If the growth of group hospitalization and group health and accident insurance over the last 10 years is taken as a criterion, it should show impressive results within a comparatively short time. It is not unlikely that in due time they will take their place along with paid vacations and pension plans in coverage and cost. This means that, with favorable development, these voluntary health services may cost in a few years as much as 4 or 5 per cent of taxable payroll instead of the present 1 per cent or so. This would bring the total cost to more nearly 17 per cent of taxable payroll instead of the present 11.91 per cent and would probably raise the company's share from 8.95 per cent to 12 or 13 per cent of taxable payroll.

The cost to the employee should be weighed against the benefits he receives, both from voluntary and compulsory services. In many cases, the cost will be balanced by benefits received; in some the benefits may be greater and in others smaller. In any event, the employee obtains a return on his investment.

On the other hand, the return to the company on the 11.91 per cent of taxable payroll it pays for voluntary and compulsory services takes the form of intangibles, such as creating good will among employees, rewarding their loyalty, protecting their health and—in the case of premature death—their families. If these intangibles work out favorably, the gain to the employer may be substantial. If not, it is an added expense of considerable proportion.

Whether the cost to the company is 5 or 10 or 15 per cent of taxable payroll, has an important bearing upon production and investment, expansion and other risk-taking. Any substantial change in the financial cost of social services cannot help but affect the economy and efficiency of management. It is for the reason of its economic effect that the cost of social services, voluntary or compulsory, should be given careful attention. Deliberate extension of these services without study and analysis might conceivably raise the total cost to the company to 20 or 25 per cent, or even more, of taxable payroll, with grave consequences to its ability to produce and its incentive to invest. A substantial increase in the cost of *compulsory* services to the company, say from 2.96 per cent (the figure

* Paid vacations are included in the survey as part of the payroll cost though they are not strictly a social service. They are, however, a reliable index of the social attitude of the employer. Also, it could be argued that if benefits are paid for time lost due to illness, why not for time lost due to vacation and recreation?

indicated in the survey findings) to 5 or 10 per cent of taxable payroll, would soon bring about a substantial reduction in the cost of *voluntary* services to the company, say from the 8.95 per cent indicated above, to perhaps 5 per cent or even less. Such a reduction would practically be forced upon the employer through considerations of competitive ability, efficiency of production, and attractiveness of investment.

The comparatively high cost of social services—both voluntary and compulsory—to the company, namely, 11.91 per cent of taxable payroll, and the implications mentioned above, emphasize the need to pay greater attention to the economic limitations within which social services may be developed. It is the soundness of the national economy and, with it, the security of the majority of the people which should be made the basic premise upon which the character and extent of social services should be determined.

The various social service plans fluctuate widely in two ways. First, the fluctuation is within the same employment group but between different services. For instance, the percentage paid for pension plans and vacations exceeds that paid for medical and related services by three to one and sometimes five to one.

Second, fluctuations exist among different employment groups. For instance, the 50-500 group pays 8.94 per cent of taxable payroll for pension plans, while the largest group, over 50,000, pays only 2.50 per cent. On group health and accident insurance, the percentage of the largest group is .93 per cent; that of the next to the largest group, only .38 per cent.

There is need to find out the exact reasons for these fluctuations, both vertically and horizontally. When these reasons have been made known, it might be helpful to set up a standard for the cost distribution of the various services.

The survey indicated that in many cases the coverage of company pension plans is small while the cost is high. In the smallest company group, for example, the cost is 8.94 per cent, and in the next 8.97 per cent, of taxable payroll. Yet a study of the answers given in the individual questionnaires reveals that these plans cover all the employees only in a few cases. Mostly, coverage runs from 25 to 65 per cent, with an average of between 40 and 50 per cent.

If pension plans were applied to all employees, it is easy to see that the cost would be considerable. Therefore, while it should be recognized that pension plans are primarily a recognition for the length and loyalty of services rendered, it might be well to evaluate them within the over-all operation of social services. In other words, the development of group hospitalization, group health and accident insurance, group prepaid medical care, surgical benefits, and other services should not be retarded for the sake of costly pension plans.

If the employer is to have a clear and reliable picture of the kind and cost of services now provided, as well as of the nature and the additional cost of services yet to be provided, to establish an all-around satisfactory system of protection for his employees, then it is necessary to pay far greater attention than has been paid heretofore to the character of the various services, actual and proposed, and to the distribution of the financial cost among employer and employees.

From *Social Security in Industry,* Research Council for Economic Security, Chicago, 1948. 12 pages.

Why Death Benefits in Retirement Plan?

1. DEATH benefits are being incorporated in retirement plans in order to make them more effective. Recently adopted plans, and particularly as they pertain to earnings in excess of $3,000 per year, frequently provide $1,000 of life insurance for each $10 of monthly retirement income, and further guarantee that such income will be paid for a minimum period of 10 years after retirement.

2. Including substantial death benefits in retirement plans is not a form of corporate philanthropy; it has several important justifications:

(a) *Difference in Employee Treatment Reduced:* Almost all retirement plans contain a provision whereby the employee may elect a smaller income at retirement and have that income continued to his wife for the remainder of her life. Assume two employees with the same earnings and entitled to the same amount of retirement income at an arbitrarily established normal retirement age. Both elect the joint-annuity option. One employee dies shortly after retirement and his wife receives income for the remainder of her life. The other employee dies shortly before this arbitrarily selected age and his wife receives nothing. Because men and management dislike this difference in treatment, new plans are being arranged so as to eliminate this inequity, and many older plans are being amended to correct it. This is accomplished by providing substantial payments to survivors in the event of an employee's death prior to retirement, and likewise guaranteeing a minimum number of payments to be made after retirement to the pensioner or to his survivors.

(b) *Supplement to Social Security Benefits:* The fact that the Social Security Act provides substantial death benefits makes it reasonable that a retirement plan, supplementing Social Security benefits, should make similar provision. Survivorship benefits for a typical employee with a wife and two children and with earnings of $3,000 per year would be substantially in excess of $9,000, which is approximately equal to three years' earnings and much greater than the life insurance provided by private retirement plans.

(c) *Estate Inadequacies Corrected:* Pension plans recognize the fact that an employee cannot save enough money to provide for the financial needs of his old age. It is now being realized that the same factors, limiting the results of thrift, prevent an employee from establishing the estate needed in the event of premature death. Again, the better buying power of the employer indicates the necessity of his giving substantial employee aid in providing this necessity. It is easy to see the importance of such death benefits to younger employees with minor children, but its value is not confined to younger employees. Older employees with great frequency also have dependents, and almost invariably they have a real need for an estate that will function in the event of death before retirement.

3. The cost of adding death benefits to existing retirement plans will be dependent upon the type and amount of benefit adopted.

The TPF & C Letter (Towers, Perrin, Forster & Crosby), May, 1948.

Survey of Books for Executives

Modern Production Control. By A. W. Willsmore. Sir Isaac Pitman & Sons, Ltd., London, England, 1946. 168 pages. 12*s.* 6*d.*

*Reviewed by Lawrence L. Bethel**

Readers of this work are provided a satisfying introduction in the opening sentence of the preface: "Production control arrangements are something more than a mere matter of 'putting an order through the works.'" It is an appropriate introduction because the reader will find that this is not merely a treatise on techniques and procedures but one which deals with fundamental principles.

Mr. Willsmore stresses throughout the importance of adjusting production systems to the changing needs of a company—changes wrought in transition from peace to war, and then again in returning to a peacetime economy but with different products and newly-developed production procedures—or adjustments in transition from a period of scarcity to a period of plenty. The author's major emphasis is that a production control system should serve a vital function in industrial administration, and to do so it must remain flexible.

The book classifies manufacturing into three types—jobbing shop production, batch production, and flow production. Mr. Willsmore states: "Broadly speaking, manufacturing industry must be considered as falling between two extreme types, with, at one extreme, the special order or job production shop and, at the other, the repetitive unit, commonly misnamed mass-production unit. The distinction to be drawn is not one of volume of production so much as of variety. . . . Between the two extremes is a variation of the special order type of industry, manufacturing on methods of batch production or lot repetitive." He goes on to explain this batch production classification as one which occurs as the demand increases for certain patterns which the company has developed to special order. The company then finds it profitable to manufacture in excess of direct orders and carry unsold portions in stock in anticipation of future orders. "The further an industry develops along these lines, the nearest it approaches the theoretical limit where the lot repetitive industry merges into the flow repetitive industry." The author discusses in considerable detail the distinctive differences and the special problems of each of these three types of manufacturing.

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Mr. Willsmore has an enviable writing style which enables him to state fundamental principles in clear, simple terms. Furthermore, he has taken the essential second step —*i.e.,* adequate illustration of stated principles.

The preface expresses the hope that the book will be of interest to the student unacquainted with business, but indicates that it is intended primarily for those already engaged in factory work. Mr. Willsmore's text should effectively serve his primary purpose, especially for British industry. It should be of special value in providing employees throughout an organization with a basic appreciation of the relationship of production control to the total enterprise. The volume will also provide a fitting introduction for the new recruit to a production control department.

The experienced American production control man will find this study of interest and value. He will observe that, though the British procedures and techniques may be designated by titles differing from their American equivalents, the fundamental principles of production control are identical in both countries.

The Internal Finance of Industrial Undertakings. By T. G. Rose. Sir Isaac Pitman & Sons, Ltd., London, England, 1947. 242 pages. 21*s.*

*Reviewed by Wyman P. Fiske**

Most books on finance emphasize the problems of long-term financing. They are concerned with securities, security markets, and financial structure. The reader is likely to get the impression that the company treasurer spends all his time dealing with underwriters and bankers. As a corollary, it also seems that he must have little to do in between spasms of obtaining new capital. That this is a highly unreal picture of industrial finance every treasurer and every president should be able to testify. Important as financial structure is, it comprises only part of the problems of finance.

The Internal Finance of Industrial Under-

* Management Consultant, New York, N. Y.

takings is concerned, on the other hand, with the problems of controlling the flow of funds through an industrial enterprise. Securities and security markets receive no more than passing attention. Instead the author attempts to "set out the main facts that the managing director (president) of a business ought to know and watch with regard to his internal finance." He recognizes a going concern as a dynamic operation, with funds in constant flow from one form of investment to another on through to ultimate recovery in cash and re-injection into the system. He assumes a financial structure and studies the problems of living with it. The task of current financial management is viewed as that of maintaining the rate and volume of flow. It is fully as important for the manager to watch the flow of funds as to be concerned with whether a flash picture of the financial position at a particular moment shows a satisfactory balance. Anything which either stops or slows up the circulation is a cause for financial solicitude. The author attempts to develop financial guideposts which will help the harried manager steer his way through the fog of day-to-day operations with some chance of knowing whether he is still on the course.

The book is divided into five sections. The first is devoted to "the money in the business"—how much there is, where it came from, and where it is now. In this section is presented the concept of capital flow, together with a discussion of the sources (liabilities and net worth) from which funds can be obtained to establish the stream, and of the temporary stopping places (asset types) in which funds pile up for longer or shorter periods. It is this emphasis upon funds as the lifeblood of the enterprise which sets the tone of the book. The rest of the discussion then describes the circulatory system, establishes tests for normal conditions, and considers the problem of diagnosing the causes of poor or interrupted circulation.

This introductory section is succeeded by a brief treatment of the balance sheet and the profit-and-loss statement as sources of information. In discussing the "movement of the money," consideration is given to turnover problems of total capital, fixed capital, and circulating capital, and to problems of debt management. Measures of the rate of flow (turnover ratios) are developed at every point.

Another section deals with the dangers of over- and under-activity, the possible sources of additional funds, and features a presentation of the bankers' point of view. The text closes with a discussion of control techniques, largely devoted to a plan of control based on a series of charts which keep before the manager trends in significant financial relationships.

For the reader in this country, the English origin of the book presents hurdles which he must be prepared to surmount. The discussion is necessarily based on the British form and terminology in accounting statements and reports, and reflects banking and financial practice in Great Britain. (This latter is particularly important in view of the English use of the bank overdraft instead of the bank loan.) Nonetheless, the advantages of the emphasis on day-to-day problems of finance will more than offset this difficulty for those who are willing to seek help where it is to be found.

PUBLICATIONS RECEIVED

[Please order directly from publishers]

RESEARCH ON WAGES (Report of a conference held April 4-5, 1947). By L. G. Reynolds. *Pamphlet 4,* Social Science Research Council, 230 Park Avenue, New York 17, N. Y., 1947. 41 pages. 50 cents.

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SLASH THOSE TAXES! By Daniel E. Casey and William P. Helm. Duell, Sloan and Pearce, New York, 1948. 128 pages. $2.00.

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